C2150-10
8/13/87

Chilton's

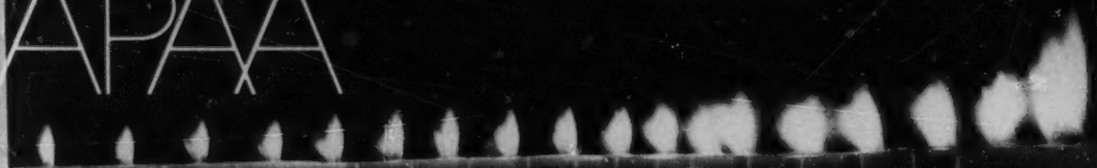
AUTOMOTIVE MARKETS

The Marketing Business Magazine For The Retail Aftermarket

AUGUST 1987

01077952576CN JUL88
BRENDAN MCNALLY
STATISTICAL REFERENCE IDX DIR
CONGRESSIONAL INFO SER.
4520 E. WEST HIGHWAY
BETHESDA MD 20814

ENTY YEARS APAA



- APAA Show News
- WD-Owned Stores
- Employee Benefits
- Management
- Service
- And much more!

Chilton's
AUTOMOTIVE MARKETING
abc

a Chilton publication

August Issue/Volume 16, Number 9

FEATURES

The Show Goes On 85
The biggest show ever is promised as APAA settles its Show in a permanent home.

Where We Are, Where We're Going 104
Changes in distribution patterns, vehicles, and customers are seen by APAA market research.

1987 Forecast: A Good Year, An Uncertain Decade 111
1986 looked good to retailers, as does 1987 so far. Beyond that, however, the future is uncertain.

WD Retailing 121
The Ma and Pa jobber store is on the way out. The warehouse-owned retail store is on the way in. Here's why.

Computer Update: Software 128
Take a look at the latest in computer software. It will make the job of running your retail store easier.

Flexible Benefits Benefit Your Bottom Line 139
Perhaps it's time you changed your benefits package to one that better meets your employees' needs and one that saves you money.

Service Market: Machines Do Not Make You Money 153
Those diagnostic wonder machines can not replace the old fashioned, never-say-die tune-up when it comes to making money in your service bays.

The Aftermarket Gets More Complex 159
The aftermarket is getting even more complex as globalization brings diverse market elements closer together.

Clear Market Goals Make Better Prototype Stores 169
Automotive store prototypes don't always turn out as planned. The failure is often caused by a lack of communication.

DEPARTMENTS

Detailing The Market 5
Editorial 25
The *Automotive Marketing* Index 26
Market Line 29
Merchandising Page 177
Products 178
Rep Guide 235
Ad Index 238
Reader Service Card 241

Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC) provided that the base fee of $1.00 per copy of the article, plus 25¢ per page is paid directly to the CCC, 21 Congress Street, Salem MA 01970. Special requests should be addressed to The Editor. (0193-3264/87 $1.00 + 25¢).

PUBLISHER'S NOTES

BIRTHDAY SPECIAL!

There's no question about it: the industry event of the month, in fact of this summer, is the Automotive Parts & Accessories Show in Chicago, coinciding with APAA's 20th birthday party!

Over the past two decades the APAA has grown along with its members in the sophistication of service to the retail aftermarket communities. We congratulate the Association and are proud to be active participants in its many [illegible]

[illegible] which we're also proud to [illegible] marketplace grows more complex, it also becomes more [illegible] Executive Editor Ed L. Mannion [illegible] planning with vehicles and looking at the ramifications on parts suppliers and eventually, retailers. Senior Market Research Editor John Wisbrock researches the WD-owned stores which are operated as fierce competitors to the chains.

Also, we have features on employee benefit menus and computer software, and lots of products news to help you plan your walk through the show aisles.

Join us in wishing APAA Happy Birthday! And let us hear from you. ■

Sarah Frankson
Publisher

EDITORIAL STAFF

Rosemarie Wilhelm
Editor
(215) 964-4384

Gail Kruegar-Nicholson
Senior Editor

Phillip Kolodny
Research Editor

John Wisbrock
Senior News & Feature Editor

Bonnie Lynne Thomas
Associate Editor

Barry J. Rosenberg
Associate Editor

Jim Naughton
Director of Graphics

Janet Lee Taylor
Art Director

Donna Frankson
Publisher
(312) 782-1400

Chilton

Chilton officers:
President and Chief Executive Officer, Lawrence A. Fossenier; Vice President, Financial Operations, Richard D. Irey; Donald P. Dutle, Vice President/Director for Chilton Research Co.; Ronald A. Hader, Vice President Finance; Charles L. Grant, Vice President Operations; Donald W. Cheshire, Vice President Publishing; John P. Kushnerick, Vice President Marketing.

Copyright 1987 Chilton Company

AUTOMOTIVE MARKETING - ISSN 0193-3264. Published 13 times a year by Chilton Company, Chilton Way, Radnor PA 19089. Chilton Co. is a division of American Broadcasting Companies, Inc., New York, NY. Subscription rates (payable in advance): In the United States and U.S. possessions, $36 a year; Canada, $70 a year; Foreign, $70 a year. Single copies $3.50 each ($30 for the 13th issue) when available. U.S. only. SECOND CLASS postage paid at Wayne PA 19087 and additional mailing offices. Postmaster, send Form 3579 to AUTOMOTIVE MARKETING, P.O. Box 2075, Radnor PA 19089.

DETAILING THE MARKET

IN-STORE FOCUS

ADAP is a company strongly committed to growth. "The single greatest challenge facing our business is growth," Floyd Percy, senior vice president, marketing, said. "We plan to build 15 more stores through the balance of this year," Percy said, adding that the chairman of ADAP's parent company Rite-Aid (a drug store-based conglomerate) "says our goal is to have 1,000 stores within 10 years."

Supporting that goal, announced at ADAP's May trade show, means some changes within ADAP, including the show itself, which was the company's first. The show was aimed at "establishing more of a rapport between stores and manufacturers," said Percy. "We wanted to impart a lot of information about product, and that's what we did."

Reaction to the show was positive. A questionnaire sent to store people and manufacturers afterwards received positive reactions. As a result, the show will be a regular event.

Decisions like that are made at headquarters, even though owner Rite-Aid is involved in the operation. Duane Ruble, senior vice president, is the Rite-Aid executive responsible for ADAP. Reporting to him is ADAP general manager Frank Corella. Percy and senior vice president/store operations Don Hettrick in turn report to Corella. Although Ruble spends three days a week at ADAP, and handles its finances, the day-to-day operations are autonomous to ADAP.

"We do our own purchasing, and we develop our own package graphics, planograms, signing, ads and so forth," Percy said.

Like many large successful chains, ADAP's corporate headquarters runs a tight ship. The store managers must follow layout and merchandising from centrally provided planograms. Every ADAP store looks more or less the same, although they vary in size.

Existing stores run anywhere from 6,000-18,000 sq. ft. But a new 6,000 sq. ft. prototype is the ADAP store of the future. That small store size means tight control on ordering and strict conformity to inventory plans. Store managers follow corporate order books which provide specific guidelines for ordering; there is little room for individual variation.

ADAP feels this type of tight control is the only way to achieve the rapid expansion planned for the chain, and to meet the challenges of the years to come.

One of the biggest challenges, Percy feels, is to "be creative enough to help the do-it-yourselfer repair his car. The auto is becoming more complex, and we have to supply the DIYer with the products and diagnostic help he needs."

In addition, the chain faces some formidable competition, including Pep Boys in New Jersey and Motor Mart in western Massachusetts and Connecticut. ADAP pays careful attention to what the competition is doing – it monitors prices, product mix, advertising, and the like. "We probably visit the competition as much as we do our own stores," Percy said.

This attention to detail has led to a healthy bottom line, ($1.4 million profit in its latest reported year).

Coming in ADAP's future: another trade show, a new store decor package, and rapid growth. "It's a negative not to grow," said Percy. "Rite-Aid Corp. is a growth-oriented company; with them, to grow is to live." And since ADAP is part of the Rite-Aid family, it's bound to grow.

DETAIL

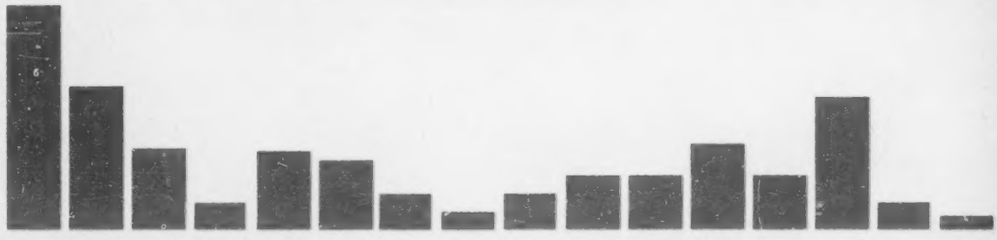
32%

more aftermarket products could be sold, with no increase in vehicle registrations, if all vehicles in America were properly maintained by their owners, according to the Motor & Equipment Manufacturers Association.

PROFILE: PROFESSIONAL, TECHNICAL WORKERS/DIYers

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who are also professional, technical, and kindred workers.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	64.3%	35.7%	11.2%	35.2%	31.1%	15.3%	7.2%	14.8%	23.5%	23.5%	38.2%	23.5%	59.2%	11.2%	6.1%



THE AUTOMOTIVE MARKETING INDEX

THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index.The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

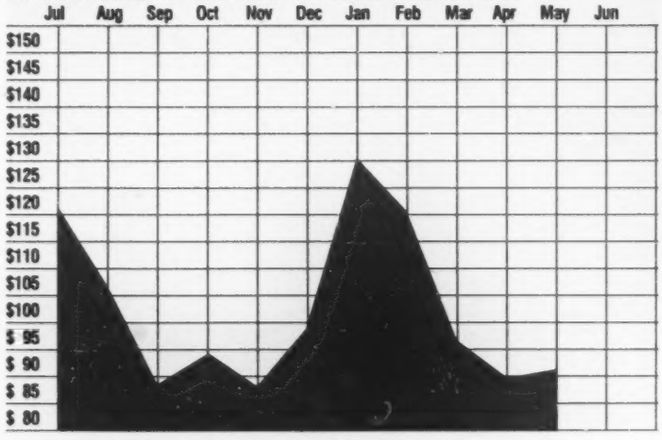
MAY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

A non-resistor spark plug:	$ .72	A gas-charged shock:	$ 12.26
An oil filter:	2.38	One gallon of antifreeze:	3.63
A can of 10W30 oil:	.78	One pair of wiper refills:	2.39
A can of paste wax:	2.99	A 40-month battery:	29.63
An AM/FM/Cassette:	38.71	Total:	$ 93.49

MAY AM MARKETBASKET PRICES BY MARKETING AREA

1. Greenbelt East:	$ 93.85	3. Smokestack East:	$104.06
2. Megapolis East:	94.16	4. Old South:	88.25
		5. Caribbean South:	93.56
		6. Smokestack Central:	103.51
		7. Grainbelt Central:	91.88
		8. Spanish West:	90.14
		9. Desert West:	93.04
		10. Greenbelt West:	81.57

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qtr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Prime Interest Rate	%	May 19	8.25	8.00	8.50	–	–
Retail Sales	billion	Apr	$125.4	$125.2	$117.1	–	–
Consumer Price Index	67 = 100	Apr	337.7	335.9	325.3	89.3 May '61	337.7 Apr '87

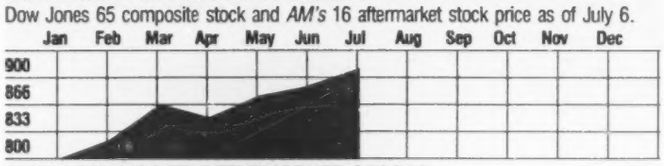
1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various aftermarket-related common stocks in various exchanges for the 52 week period prior to July 6.

	Exchange	52-week High	52-week Low	7/6 Quote	P-E Ratio
Armor All	OTC	20 3/8	10 1/4	19 1/4	23
Cardis Corp.	AMEX	10	2 7/8	2 7/8	3
Champ Parts	OTC	12 1/4	3 1/2	10 1/2	48
Champ Spk Plg	NYSE	16 1/8	8 3/4	14 5/8	–
Chief Auto	OTC	12 1/4	4 1/4	15	17
Crown Auto	OTC	4 1/8	3	3 7/8	–
Dana Corp.	NYSE	49 5/8	25 1/2	44 3/4	26
Duralon	OTC	14 1/4	9 7/8	11 5/8	15
Echlin	NYSE	25 3/8	14 7/8	17 1/2	17
Facet	NYSE	21 3/8	8 3/4	18 5/8	26
Genuine Parts	NYSE	39 1/2	26 5/8	38 1/8	24
Grand Auto	AMEX	25 1/4	15 3/4	15 1/2	129
Mr. Gasket	OTC	15	4 3/8	6	–
Prkr Hannifin	NYSE	37 5/8	20 1/4	32 3/4	17
Pennzoil	NYSE	95	50 5/8	79 1/4	40
Pep Boys	NYSE	53	35 1/4	49 3/8	30
Perry Drugs	NYSE	20 3/8	9 1/2	11	–
Purolator	NYSE	40 5/8	15	36 1/2	–
Quaker State	NYSE	31 3/4	21 7/8	23 1/8	13
Republic Auto	OTC	9 1/4	6 3/8	7	–
Rite Aid	NYSE	39 3/4	26 3/4	38 1/2	12
Sealed Power	NYSE	37	23 1/8	36 3/8	15
Southland	NYSE	75 3/4	44	75 3/4	12
Stan Mtr Prod	NYSE	25 3/8	16 1/4	20 1/8	14
Superior Ind	AMEX	19 3/8	18 1/4	15 1/4	10
TBC Corp.	OTC	16 1/4	5 3/4	15 1/2	17
TRW	NYSE	55	48 1/2	53 5/8	16
Tenneco	NYSE	51 3/4	36	49 1/2	–
Tracor	NYSE	24	16 1/2	19 7/8	21
Trak Auto	OTC	18 3/4	11	14 3/4	46
Triad Systems	OTC	15 1/8	8 1/2	11 3/4	23
Witco	NYSE	47 3/8	31 1/8	39 5/8	13

DOW JONES 65 COMPOSITE STOCKS

Dow Jones 65 composite stock and *AM's* 16 aftermarket stock price as of July 6.



AM 16 COMPOSITE AFTERMARKET STOCKS

PRODUCT OF THE MONTH: SHOCK ABSORBERS

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed shock absorbers during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	76.4%	23.6%	10.6%	28.4%	26.9%	16.3%	17.8%	24.5%	26.0%	21.2%	18.8%	13.0%	43.3%	25.0%	17.8%	26.4%	32.7%	40.4%

October 23. Salzberg said they'd received several inquiries from companies wanting to buy Tuneup Masters. And, Bear Stearns is studying whether to sell parts of the company, or all of it.

However, while Cardis goes ahead with its planning, Autospa, which operates 35 fast lube centers and has 500 additional franchises sold (projected 1987 sales: $4.5-$5 million), believes it has a binding agreement to buy enough stock to gain control of the troubled warehouse company. The original letter of intent was signed on April 1. Autospa calculated its total investment in Cardis would come to between $50 and $55 million.

But on June 3 Cardis announced that negotiations had been terminated and the deal was off.

"The original agreement specifically said it was subject to a definitive agreement to be signed by April 22," Salzberg said. "There was no agreement entered into on April 22. It was subject to financial arrangements and none of the conditions were met by Autospa."

Autospa feels differently. Autospa chairman Benjamin Zitron told us Salzberg was "150% incorrect. We're ready, willing, and able to go ahead." Zitron said the agreement is binding, and Cardis had no basis to terminate the agreement unilaterally. He also feels Autospa should have the right to approve any debt restructuring or "redeployment of assets." Zitron said Autospa has also engaged the law firm of Skaddens Arps Slate Meagher & Flom to advise it on all alternatives to enforce the agreement. "We're actively pursuing the alternatives. There's no particular rush," Zitron said.

Zitron added that he agreed with the assessment that Autospa had been used by Cardis to gain a stay of execution. "The suppliers should thank us. We may or may not be used again."

What will happen? Several Cardis employees said they have a "very temporary feeling" about their jobs. Vendors were also worried. "If they don't make the Fall payment on those balloon notes, that's it," one supplier said.

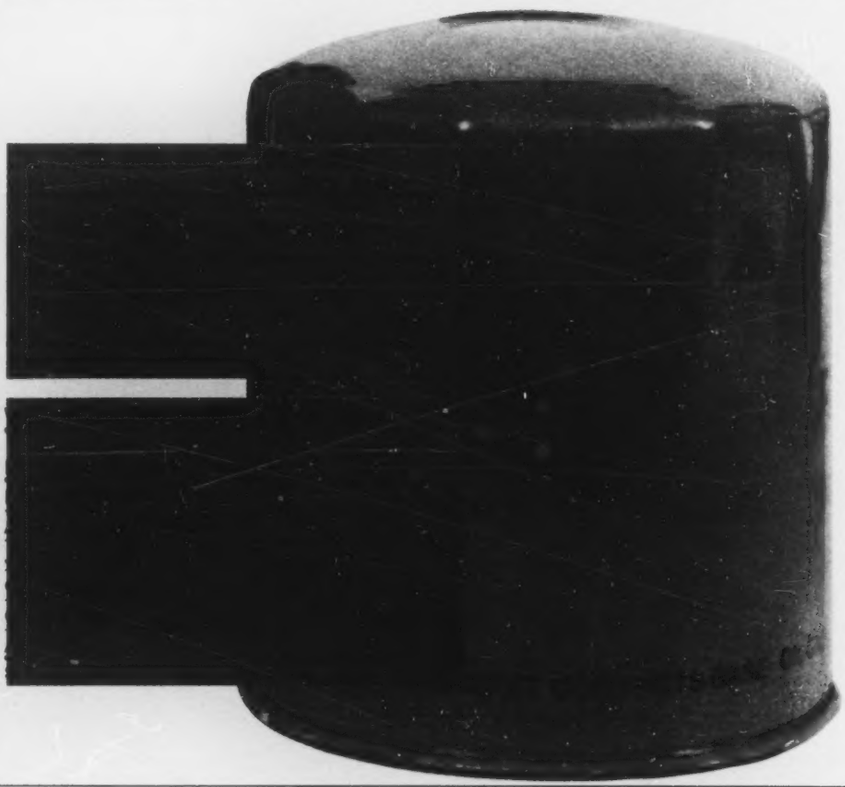
If Cardis goes bankrupt, it will leave a distribution void on the West Coast since Cardis represents perhaps as much as 40% of California parts sales. Cardis also represents the largest single entity in Carquest programmed distribution group, and a Cardis failure means trouble for that group.

However, if Autospa succeeds in gaining control of Cardis, it might also mean chaos since most observers feel Autospa only wants Tuneup Masters and intends to split up and sell off the warehouses individually to finance the purchase.

The key will be whatever Cardis decides to do with Tuneup Masters. Stay tuned for further developments. ■

Fast Lubes, More SKUs Both Impact Today's Changing Oil Filter Market

The Baby Boomers are a little older, and they represent a big part of the DIY market," the product manager for one oil filter manufacturer said. "Now that he's older and more affluent, the Boomer doesn't want to spend a lot of time under the car. He doesn't want to get his hands dirty."



That may sound like a sociological report, but it's really the key question in the oil filter market over the next three to five years: How big an impact will the fast lube operations have on oil filter sales?

Right now, the oil filter market splits almost evenly, with installed sales slightly higher than DIY sales. Fast lubes sell about 3-4% of the total market. But several oil companies are investigating the market and Sears, the nation's largest retailer, is rumored to be testing a fast lube operation for its 700 auto centers to roll out in the Northeast in 1988.

So most oil filter suppliers expect the fast lubes to be installing 15-20% of oil filters or more by 1990. As a result, all the major suppliers are looking for ways to get into the fast lube market.

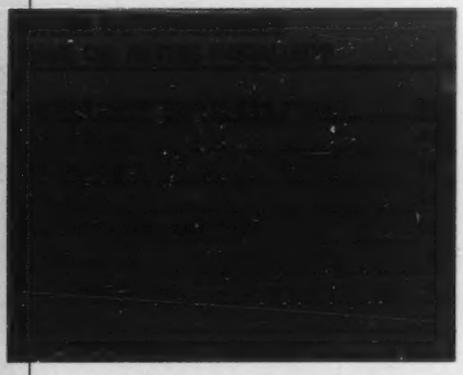
Facet Automotive Filter Co., Tulsa, OK, presently dominates the fast lube market with 70-80% of the market. Facet produces private label filters for Valvoline and Pennzoil, the major oil supplier to fast lubes. Facet's acquisition of Purolator adds the dominant share of Jiffy Lube business (Champion Labs have a smaller share along with OE suppliers). Interestingly enough, Facet also supplies Minit Lube, the second largest fast lube, although Minit Lube is owned by Quaker State. Quaker State buys Fram filters.

The key to fast lube sales is, in the words of one fast lube operations manager, "A sense of urgency. If we're out of a filter, we're in trouble. We lose the cus-

MARKET LINE

tomer. So, coverage and availability are critical. The major suppliers are still not used to this."

Coverage means about 200-280 SKUs for Jiffy Lube (depending on vehicle demographics). Availability means drop shipping to each location. This is a challenge for suppliers used to shipping skids and truck loads to WDs' and retailers' central warehouses. A number of suppliers think that eventually fast lube centers with storage space will become regional warehouses. There's also the possibility of wagon jobbers entering the market. There are serious problems for suppliers to overcome in selling the market but the fast lube potential fascinates suppliers.



Does this foretell a drastic fall in the DIY market? No, say suppliers. However, fast lubes, more complex cars, and oil disposal rules will all affect the DIY market. One supplier's study shows that 10-11% of DIYers, termed "reluctant DIYers," may switch. But the DIY oil/filter change market will remain in the 40%-plus range for the foreseeable future.

This means retailers will continue to reap the benefits of intense competition on the part of suppliers. One retailer summed it up this way, "The filter industry is in a shakeout mode. It's depressed in profits and suppliers are not able to get price increases. Everybody's hungry, everybody's cutthroat. I like the idea myself: a phone call to X makes Y jump."

Six large companies supply about 90% of the oil filter market. Fram Division/Allied Automotive, East Providence, RI, and the merged Facet/Purolator combo are the two top guns. Together they share about half the market, with Fram slightly ahead.

Fram enjoys the best brand awareness and the biggest brand sales in the filter market. Competitors had nothing but praise for its operations. "They stay close to their customers," one competitor noted. If it has a weakness, it may be over-

(Circle 31 on Product Information Card)

SHELVING YOU CAN AFFORD!

Its low price makes it easy to buy and its superior quality makes it last. Tough, steel-edged **oriented-strand board** shelves and welded steel box-formation posts give you the strength you can depend on. . . plus, quick and easy assembly means you can save even more by assembling it yourself.

Choose from post heights which range from 6′ to 16′, and 500 lb. capacity shelves which are available in three widths and three depths.

Your local Borroughs Distributor has STOR-EDGE™ Shelving in stock and ready for immediate delivery. **Time is money. . . .call today. 1-800-253-4083** (In Michigan, call 1-616-342-0161).

BORROUGHS
MANUFACTURING CORP.
3002 North Burdick Street, Kalamazoo, Michigan 49007
(800) 253-4083, In Michigan Call (616) 342-0161

(Circle 32 on Product Information Card)

MARKET LINE

distribution. As a competitor said, "They have to be careful about overdoing a good thing."

Facet is the larger side of the Facet/Purolator combo because of its strong private label sales. For example, K mart, the largest retail distributor of oil filters, buys two-thirds of its inventory from Facet. As noted above, Facet also has the lion's share of the fast lube business and will benefit from its growth. In addition, the merger gives Facet a tremendous brand/private label package to offer retailers and program distributors where Purolator had yet to make significant inroads. But, as a competitor said, "Facet has tremendous ins in the retail market. They need to be watched carefully."

Just as there are two large suppliers, there are two mid-range suppliers. AC-Delco, (part of General Motors), Detroit, and Wix Corp. (part of Dana Corp.), Gastonia, NC both sell about 10-15% of the market.

Next to Fram, AC-Delco has the best brand awareness, thanks to spokesman Brigadier General Chuck Yeager. AC-Delco's strength is its OE connection; likewise, its weakness is the OE connection. Any company that sells OE filters for the

MARKET LINE

53 million GM vehicles on the road has a built-in sales advantage. However, competitors feel it's hard to sell AC filters for non-GM vehicles to retailers. They also feel that AC sales personnel may not try hard enough to sell the complete line.

Wix is the major supplier to the traditional side of the market. NAPA, APS, Carquest, and all the big programs except Bumper-to-Bumper are Wix customers, as are several large oil companies. Wix is not known for discounting, so the brand is seldom seen on retail shelves. Yet it also sells Sears private label filters. Its strength is a very long line (close to 300 SKUs in oil filters). Competitors say its weakness may be that the company has "painted itself in a corner" by telling traditional customers it will not low-ball.

The final two major suppliers are both hovering around the 8-10% range; they are Champion Laboratories, Albion, IL, and Motorcraft-Ford Parts and Service, Dearborn, MI.

Champion Labs has enjoyed nice growth in recent years mostly in private labels (parts of the K mart, Jiffy Lube, and Motorcraft business, as well as the AutoValue programmed distribution group are major customers). Champion also owns the Lee brand name. Competi-

SHELVING AND MORE

Perfect for storage of large and bulky parts, LOCK-SPAN® Shelving can also be configured for tire and wheel racks as well as sheet metal storage. Tackling your toughest storage job is no problem for this versatile storage system.

A complete range of sizes lets you construct a single unit as small as one foot square, or as large as eight feet square. . . or any combination of sizes in between.

LOCK-SPAN® Shelving goes together so easily anyone can do it. All pieces are pre-cut to size. There are no lefts, rights, fronts or backs – it can't go together wrong!

Your local Borroughs Distributor has LOCK-SPAN® Shelving in stock and ready for immediate delivery. Get it together today. . . .call **1-800-253-4083.** (In Michigan, call 1-616-342-0161).

BORROUGHS
MANUFACTURING CORP.
3002 North Burdick Street, Kalamazoo, Michigan 49007
(800) 253-4083, In Michigan Call (616) 342-0161

(Circle 148 on Product Information Card)

tors feel that Champion must still build a consumer franchise for the Lee brand, an expensive proposition.

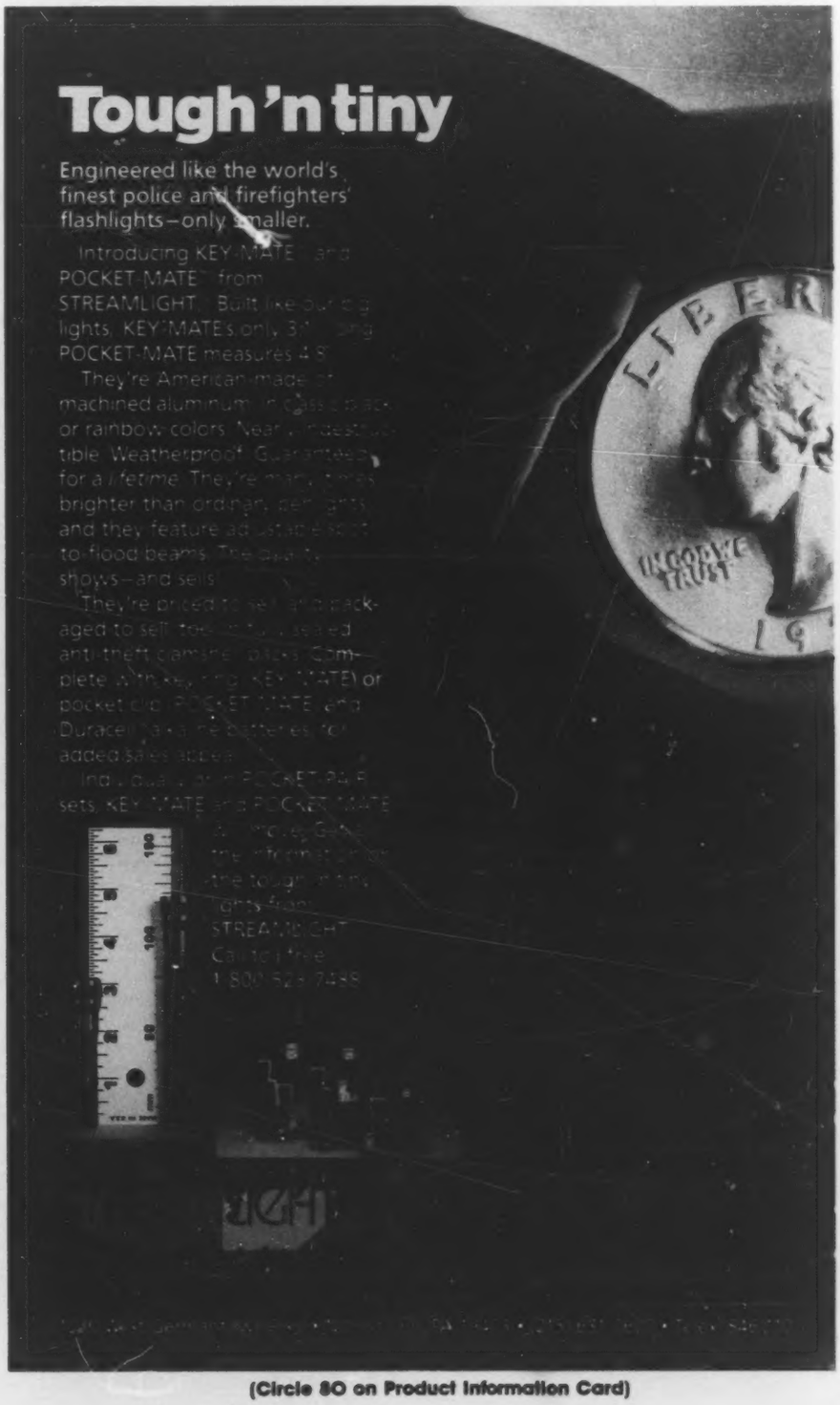
Motorcraft is in much the same position as AC-Delco, except, of course, it's OE to Ford. However, unlike AC-Delco, Motorcraft sources the majority of its filters from Champion Labs, Facet, and Wix. "It's a very strange situation," one supplier said, "to be competing with yourself." Motorcraft splits its sales about evenly between traditional and retail and does an aggressive selling job, competitors said.

The six large suppliers may be joined by a seventh if Champion Spark Plug Co., Toledo, OH, successfully markets its filters. Building on consumer awareness of Champion spark plugs, the company will market, among other products, a line of private label Champion-brand filters made by Facet. The advantages of a single selling organization, shipping benefits, and opportunities for cross marketing will all help the line. And, Champion feels even a 2-4% share of a $950 million market will be successful. But competitors feel Champion has "a long row to hoe" in getting retailers to take on the Champion filter line.

One thing that may work against Champion will be parts proliferation which may change the way retailers stock oil filters. Right now, virtually every retailer stocks two brands of filters and many carry three or even four. The ideal lineup, we're told, is a name brand, some AC/Motorcraft SKUs, and a private label. About 22-24 SKUs ensures good coverage, although one supplier noted, "You can still cover a lot with only 12-13 SKUs." But parts proliferation will end this ability to cover extensively with only a dozen SKUs.

"The days of selling millions of a single model are gone," a supplier said firmly. One supplier noted that one SKU accounted for 35% of his sales in the past; now that SKU is down to 20%. Almost unanimously, suppliers felt SKUs would double in the next three to five years, especially in import models, for the retailer who wants the best coverage.

For the suppliers, parts proliferation demands quick change lines and cost effective management of their factories. For the retailer, it may mean a choice between cutting brands or devoting more space to filters. Parts proliferation will be even worse in air filters, according to suppliers. And so, suppliers expect competition to get even tougher for shelf space. ■



(Circle 80 on Product Information Card)

Precision Tune Aims For 1,000 Centers

Precision Tune Inc., Beaumont, TX, the largest tune-up franchise chain with about 400 location and 1986 sales of about $85 million, was sold by founder Bill Childs in April to a group of investors headed by Donald E. Ervin.

Automotive Marketing recently spoke with Ervin and his "right hand man" vice president Scott Morrison about Precision Tune's future.

Ervin was a banker in the Washington, DC, area for 28 years before buying Precision Tune. However, he'd become disenchanted with the banking industry and U.S. monetary policies and had been looking at the franchise industry for the last few years.

He was impressed with the automotive aftermarket: "It's a gigantic market, insulated somewhat from the general economy and not subject to business cycles. Even when times are bad, people have to hang on to their cars."

MARKET LINE

AWDA Study Finds Profits Slipping Down For WDs

The annual financial analysis conducted by the Automotive Warehouse Distributors Association (AWDA) found that after three years of rising profits, pre-tax income peaked at 3.82% of sales in 1984, and then declined for the past two years. The 1986 decrease to 2.46% put the results at the lowest level of this decade, below the recession years of 1980-82.

The AWDA data is based on operating results from 136 member WD companies with average annual sales of $12,349,576. The study is compiled for AWDA by John X. Wegmann, CPA with Wegmann-Dazet & Co., New Orleans, LA.

The major contributing factor in profit decline is increasing payroll costs. Payroll costs climbed to 10.6% in 1985 and reached 10.77% in 1986. The study notes that other expenses have also increased. Insurance expense rose from 0.19% in 1984 to 0.43% in 1986, while bad debts have also risen from 0.22% to 0.46% during this same period.

On the bright side, the traditional side has seen the sixth consecutive year of real sales growth (slightly over 2%), relatively constant gross margins at nearly 25%, and a slight increase in inventory turnover to 3.6 turns. ■

THE 10 LARGEST WAREHOUSE—OWNED STORE OPERATIONS

Although there are several jobber chains larger than some on our list, most of these are jobbers with a captive warehouse. Our list is limited to full-line warehouses that meet the Automotive Warehouse Distributors Association (AWDA) criteria for membership. See our story on warehouse-owned stores in this issue for a closer look.

Stores	Warehouse/ Store Name	Location	Mostly Retail Or Wholesale
450-plus	Genuine Parts Co./NAPA	Atlanta, GA	W
195	A.I. Automotive/Bumper To Bumper	New York, NY	W
147	Steego Parts Corp./Steego	W. Palm Beach, FL	R
116	APS Inc./Big A	Houston, TX	W
110*	General Parts/Carquest	Raleigh, NC	W
87	Straus-Frank Co./Carquest	San Antonio, TX	W
82	Ozark Automotive Dist./ Ozark/O'Reilly	Springfield, MO	R
75	Fisher APW/Fisher Auto Parts	Staunton, VA	W
73	Hi-Lo Consolidated/Hi-Lo	Houston, TX	R
56	Motive Parts Whse./ Green Light Auto	Fort Smith, AK	W

* Note: General Parts participates in the ownership of 110 stores to some extent in partnership with owner/investors.
Source: Automotive Marketing (from author's sources)

(Circle 34 on Product Information Card)

TRADITIONAL MARKET

MEMA Study: One Jobber Store Fails Each Day

Between 1979 and 1986 about one jobber store a day closed its doors and went out of business.

That's just one of the fact from a study of automotive jobbers produced and marketed jointly by the Motor and Equipment Manufacturers Association (MEMA), Englewood Cliffs, NJ, and Lang Marketing Resources Inc., Midland Park, NJ.

MEMA published previous jobber studies in 1980 and 1982. The new study found about 28,000 jobber stores in operation, approximately 2,200 fewer than in the 1980 study.

Of the 28,000 stores, about one in four is part of a multiple store operation, and the multiple store operations account for more total sales than the remaining 21,000 single-store operations.

Although the great majority of jobbers are still small businesses, the jobbing business is changing rapidly. For one thing, jobbers are becoming more sophisticated. Over 60% are computerized (compared to about 20% in the 1980 study), and by the end of the decade over 40% will be electronically linked to manufacturers.

JOBBER BUSINESS

Although the percentage of jobber business represented by retail volume has grown at a slower rate in recent years, retailing has still increased fourfold since 1971.

1971	9%
1975	16%
1979	29%
1982	32%
1986	36%

These are the segments that represent the largest portions of jobber sales:

Retail Sales Independent Repair Shops	36%
Service Stations	15%
New Car Dealers	9%

Where jobbers buy product by 1986 percentage of dollar volume:

WDs	61%
Direct Buying	28%
Specialty WDs	9%
Other Jobbers	2%

Source: MEMA

Another change is the rise in jobber operations with machine shops. Today, nearly 60% of jobbers offer machine shop services, compared to 51% in 1980.

The study also shows a continued rise in retail sales as part of the jobber's business. Although the percentage of jobber business represented by retail volume has grown at a slower rate in recently, retailing has still increased fourfold since 1971.

Several other study findings demonstrate the growing importance of retail business to the jobber:

- Only 70% of jobbers (compared with 85% in 1979) have any outside salesmen and only 44% employ full-time outside salesmen.
- More than half of all jobbers participate in some kind of programmed distribution group compared with about a third of all jobbers in 1979.

Still, in its presentation, MEMA said it believes that DIY growth is slowing in recent years and the jobber faces increased competition for the DIY dollar from auto chain stores.

In addition to increases in retail busi-

For greater profits— **5**

Good reasons why Rancho products should be in your store.

1 Comparing 1981 to 1985, light truck sales have doubled.
There has been an unprecedented increase in 2WD and 4WD light truck and sport utility vehicle sales, nationally. Your specialty equipment customers will be looking for quality products for those vehicles. Being ready to offer Rancho shocks, steering stabilizers, overloads and complete high performance suspension systems just makes sense.

2 Most of your customers will buy the brand name they're familiar with first.
Based on recent industry studies—brand name is very important. Most of your DIYers of specialty equipment have already decided, even before they enter your store, to buy a particular brand product. Rancho has established a strong awareness, a loyalty for its products—for 2WD and 4WD trucks, for sport utility vehicles and for autos.

Total Light Truck Sales
Domestic & Import 2WD & 4WD
Source: Volume Buyers Update, Four Wheeler Magazine

3 Rancho knows your store display space is valuable.
Making the display areas in your store work harder for total profits must be an important consideration. Each square foot of an attractive Rancho display area can mean greater profits, a higher return on your investment in store space.

4 Loyal Rancho purchasers will be in for both impulsive and necessity purchases.
By attracting Rancho customers to your store, you'll also be able to enjoy the benefits of cross-selling other products to them. Whether it's impulsive or necessary maintenance items, the quality minded Rancho purchaser may reach for other high-profit products.

5 We're experts in merchandising—let us help.
With over 30 years involvement in the industry, we've created strong merchandising programs that work. CALL US—let us design a program around your needs.

For technical assistance or promotional ideas, call **1(800) 421-7555** (Outside CA)

P.O. Box 5429, 6925 Atlantic Ave., Long Beach, CA 90805 213/630-0700

RANCHO SUSPENSION

(Circle 35 on Product Information Card)

ness, jobbers have enjoyed growth in percentage of sales volume from independent repair shops (from 17% in 1979 to 18% in 1986), and new car dealers (from 8% of volume in 1979 to 9% in 1986).

In contrast, four types of business represent smaller portions of jobber volume. Service stations show the sharpest decline, dropping 4% to 15%, while heavy duty trucks (4%), industrial accounts (4%), and mass merchandisers (1%) have all dropped a single percentage point since 1979.

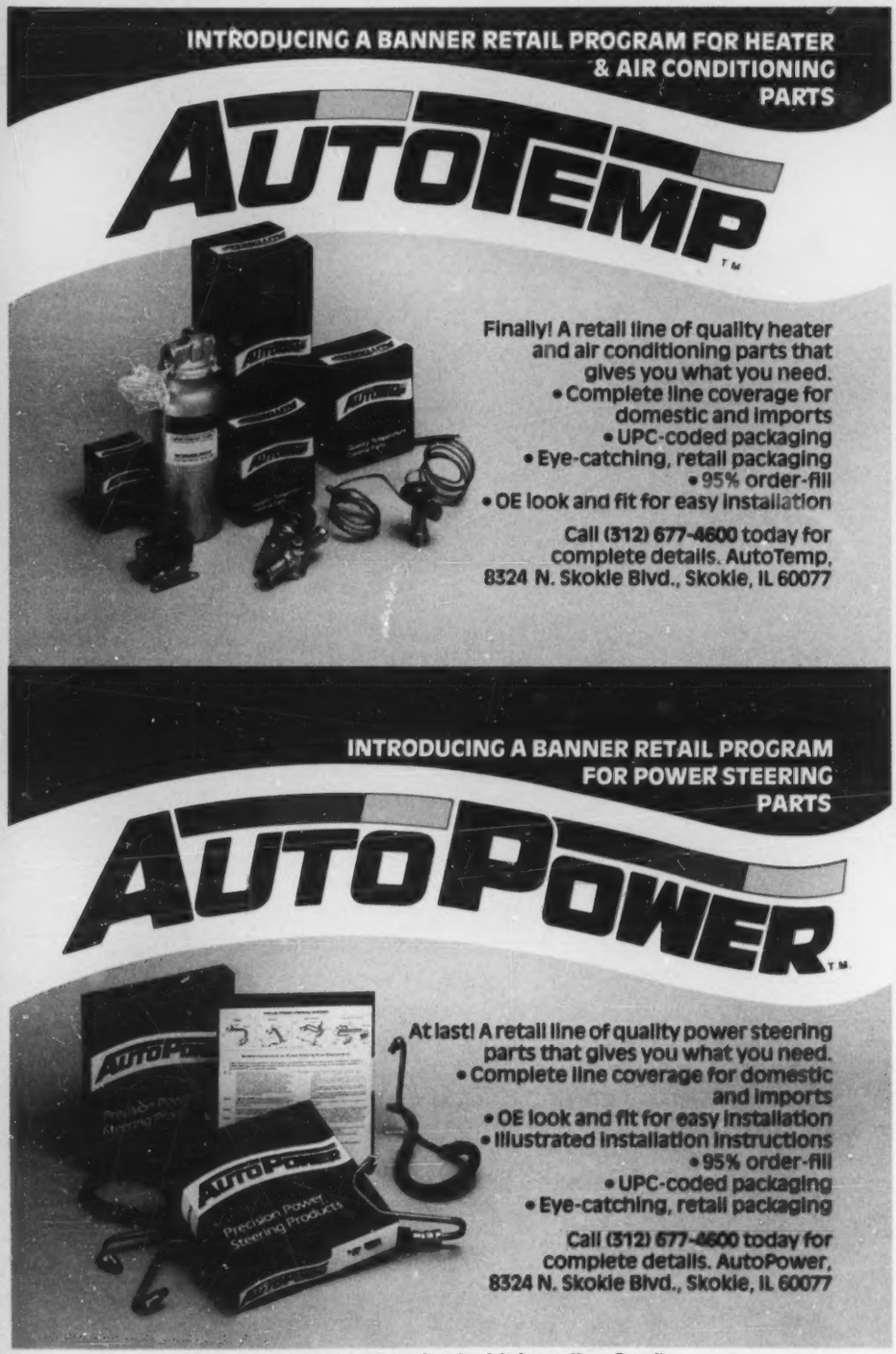
There are also some significant changes in where jobbers buy products, according to the study. For example, jobbers buy 6% less of their dollar volume from WDs than they did in 1979. Increases went to specialty warehouses (including discount operations) and direct buying.

As part of its preliminary presentation of the study, MEMA reported on three problem areas in terms of jobber competition for business:

- In retail sales, auto chain stores offer better prices and a better assortment than ever before.
- In pursuing retail sales, some jobbers have curtailed vital services important to develop wholesale trade such as outside salesmen and delivery services.
- There is growing evidence that jobbers are losing more than 25% of the import replacement market to other types of distribution.

According to MEMA, these are all areas in which WDs and manufacturers must work together to increase jobber competitiveness.

To obtain the full report, contact MEMA, 300 Sylvan Ave., Englewood Cliffs, NJ 07632, (201) 569-8500. ■



(Circle 67 on Product Information Card)

UPDATES

The Fast Lubes And Battery Imports Grow

To keep you current, *Automotive Marketing* updates some recent stories about market trends.

- **Fast Lubes**

The fast lube market continues to see strong growth. Market leader Jiffy Lube, Baltimore, plans to have 700 centers operating by the end of the year. President Dick Breen said they are "clearly determined to be the first to open 1,000 centers." Jiffy Lube sales were about $150 million in 1986, up from $91 million. Breen added that Jiffy Lube has two centers open in France and will open shops in Canada, Australia, England, and the Netherlands in the next year.

Earlier this year, Jiffy Lube failed in an attempt to purchase number three fast lube, Grease Monkey, Denver, CO. Grease Monkey president Art Sensinig said Jiffy Lube made two offers, "but they were just not enough. We're just not interested in selling." Sensinig said Grease Monkey sales were about $16 million in 1986. The company should have 125 locations ("That's minimum," said Sensinig, "a number set in concrete") open by year end. Number two Minit-Lube, owned by Quaker State, will have about 200 open by the end of the year.

- **Battery Market**

The acquisition by Exide, Horsham, PA, of the General Battery Co., Reading, that we discussed in our June battery story is now complete.

In the same battery market story, *Automotive Marketing* did not discuss the impact of imported batteries. About 3.6 million batteries were imported in 1986, compared to only 2.0 million in 1984, according to the U.S. Battery Trade Council (USBTC), which monitors imports. Although many of these batteries are not au-

THE CHANGING MARKET:

Where We Are, Where We're Going

Judith A. Broseker, managing director, market research, APAA: "I don't like to be pessimistic."

Changes in distribution patterns, vehicles, and customers are seen by industry market research.

by **Philip Katcher,** Research Editor

We're looking at an aftermarket that is fundamentally different now than it was less than a decade ago, according to trends seen by Judith A. Broseker, managing director, market research, of the Automotive Parts and Accessories Association (APAA) and executive director of APAA's Foundation for Aftermarket Industry Research (FAIR). The FAIR research projects show the aftermarket as greatly affected by changing basic distribution patterns and its customers and their vehicles.

"I don't like to be pessimistic about the future," she recently told *Automotive Marketing*. "And, it's difficult to predict the aftermarket's future because it's changing so fast. Still, there are a couple of major trends that we can see developing."

Specifically, Broseker notes that FAIR studies have indicated increased growth in the sales of imported vehicle parts by aftermarket retailers; increased growth in specialty repair shops; and increased numbers of non-traditional retailers such as drug and discount stores that sell automotive parts.

Broseker's organization, FAIR, is a self-funded, non-profit organization founded in 1980 by APAA as a separate corporation to carry out research for the association. It has tracked several areas of concern for aftermarket retailers for some time now. FAIR released its first study on one crucial topic, *Retail Distribution of Automotive Products*, in 1980. It updated this in 1983 and again in 1986.

Non-Traditional Growth

The six years since the first study have seen definite changes. "We found that non-traditional type outlets handle and sell auto parts in ever increasing numbers," Broseker said. "There has been a 10% increase in the number of discount stores selling auto parts since 1983. We're seeing more grocery stores, drug stores, and department stores selling auto parts. And, we'll see more of that by 1990."

In fact, FAIR found that 6,300 more food stores, 600 more drugstores, and 700 more discount stores were selling automotive products in 1986 than were in 1983. On top of that, 800 hardware stores started adding automotive products to their inventory over the same three-year-long period.

According to FAIR's study, the years since 1983 have seen 11,400 fewer retail outlets that handle automotive parts in business. There were 16,100 less service stations, an 11% decline. There were 900 fewer new car dealers that sold automotive products in 1986 than in 1983.

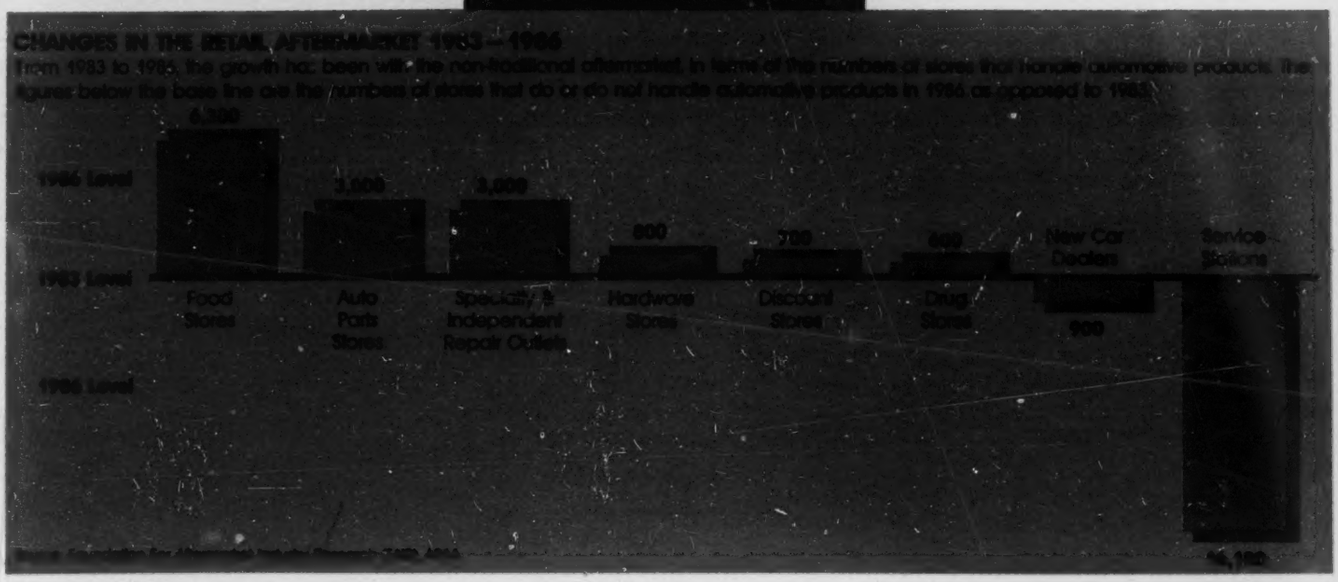
At the same time, mass market retailers have added automotive products to their inventory at increasing rates. And, there were nearly 41,000 auto parts stores in 1986, up from the 38,000 FAIR found in 1983. This represented a 7.6% increase over the period.

And, specialty repair shops and independent repair outlets have grown at an annual rate of 3,000 outlets since 1983. "We're seeing specialty repair shops taking over for service stations and independent garages," Broseker said.

The Import Problem

The distribution study is only one of

THE CHANGING MARKET



several FAIR studies done in different areas in which significant changes have been found.

In 1985, FAIR produced a study, titled *Dynamics of the Import Aftermarket*, that analyzed the impact of imported vehicles on the U.S. automotive aftermarket, drawing on material produced through *Automotive Marketing's 1985 Consumer Automotive Repair Study* and APAA's Market Research Committee. This is still, even after the study's publication, an area in which FAIR is interested. "We have to address the import question," Broseker said. "It's a trend that will not go away."

This study predicted that sales of imported cars and light trucks would continue to boom. "To meet increasing demand, virtually all retailers sampled by FAIR sell parts for imports," Broseker said. "More than two-thirds have experienced increased sales of parts for imports during the 1984-85 year. They fully expect this growth trend to continue and nearly half are planning additional space allocation for parts for imports. The majority said they use domestic sources of supply, primarily full-line parts distributors and manufacturers.

"Only 5% import directly from offshore suppliers, primarily because of lower product costs," she continued. "As you would expect, the larger the size of the store with respect to the number of outlets operated, the greater the likelihood of importing directly. Of those who do, almost 60% have increased their purchase volume from Japan."

Looking At New Areas

FAIR has a couple of new studies up its sleeve that will be released shortly. These have taken a longer time than expected to produce, having hit a couple of rough spots in their production, but promise to be worth the wait.

"One of our big projects has been our 'cost of automotive retailing study'," Broseker said. "This is a national survey that looks at the total operating statistics for retailers. The statistics are broken down into an overall average, and then by different variables such as sales, trade area, volume, store size, and ownership."

The study's purpose is to provide APAA members with a means to compare their operations, with similar operations. The study was based on the results of questionnaires mailed to non-member retailers as well as association member retailers.

This study is filled with revealing data. For example, the FAIR study reports that the average auto parts retail store, nationwide, has a 3.3% pre-tax net profit, while its return on assets is 7.85%.

As well, FAIR will shortly release its *Consumer Buying Patterns Study*. This study was done to learn why consumers choose one outlet over another when purchasing automotive products and to analyze purchase behavior by demographics as well as psychographics. The study was conducted in 14 different types of retail outlets (some 210 stores in all) in the Cleveland area. Similar studies will be conducted in different areas, Broseker said, and eventually a national study will be put together from the various regional ones.

Speaking of consumers, Broseker said that she has observed a definite correlation between advancing age and declining DIY work, something that will become important to retailers as the "baby-boomers" get older.

Timely, Comprehensive Information

FAIR's work is governed by the APAA Market Research Committee, which is charged with providing APAA's members with timely and comprehensive market information.

The actual areas that the committee chooses to investigate are determined by perceived member and market needs, most often solicited through membership studies. As Broseker said, "We're basically member-driven, doing research that people want us to do so they can stay on top of the industry."

The Market Research Committee set a goal of completing one major research project each year. Its first distribution study was released in 1981. The 1982 study, *Auto Supply Retailer Operations*, showed how different sorts of operational factors, such as square footage, types of lines carried, number of cash registers, store house per week, and customer credit, influence profit. A section also showed the manufacturer and rep how to contribute to the success factors for their retailer customers.

FAIR updated its distribution study in 1983 and 1986. The updated *Retail Distribution of Automotive Products* was released in 1984 and 1987. As well, FAIR completed the *Traditional Distribution of Automotive Products* that year. Both studies were updates of the original 1980 research and assessed changes in the number and type of outlets handling automotive products.

As for the future, Broseker and the committee see the need for an industry retail sales tracking program, to follow the sales of products by product line and type. They also perceive value in the development of an overall industry status paper. We'll be watching for them. ■

A Good Year, An Uncertain Decade

1986 looked good to retailers, as does 1987 so far. But the future is uncertain.

by **Philip Katcher,** Research Editor

According to many retailers, 1986 was a better year than 1985, and 1987 should be even better. The average chain *Automotive Marketing* surveyed reported an 8.67% growth in 1986 over 1985. Some did considerably better: Jack M. Gallagher, president of Perry Drug Stores' Auto Parts Division, reported an impressive 14% increase in 1986 over 1985.

And, the average retailer says growth in 1987 will be 9.25% better than it was in 1986.

This growth, however, will have to come by increasing market share rather than through an industry-wide expected growth. William F. Prebe, vice president-economist of the Dana Corp. sees only a 3% industry-wide growth rate for replacement parts, while Robert C. Rogers, vice president of training for Camelot Inc., Kansas City, MO, believes the aftermarket faces a 2.6% growth rate.

Looking beyond 1987, however, is even more uncertain and actually frightening in at least two major areas. Megachains, with more than 100 stores each, threaten the existence of smaller, independent chains. And, there's even considerable doubt about the future of the basic customer, the DIYer.

The Megachain Future

It's no secret that the big seem to be growing bigger, while the small are being absorbed or fall to the wayside. Even larger chains have been snapped up by even larger, often multi-national, corporations. Ask a vehicle owner in Miami what The Whitlock Corp. is. While the name Rose Auto Stores is recognizable to aftermarket shoppers there, few if any would know the name Whitlock. Yet, as of last year, Whitlock is the parent company, and Rose simply one of its branches.

"The aftermarket will see continuing shrinkage in single unit stores," believes John J. Sherlock, president of Jay's Da-Nite Auto Supply Inc., Tucson, AR. "Chains will continue to produce many 100-400 unit operations." Moreover, "The marketplace will continue the trend to increased competition, putting a squeeze on profits," he says.

Ellida Kirk Lathrop, president of A.A. Auto Parts Inc., a four-store-chain headquartered in Tacoma, WA, is another aftermarket retailer who sees even greater pressures in the future on small, independent aftermarket retailers. What lies ahead, she fears, is "the big getting bigger, the independents turning into America's serfs. Smaller profit margins as mass merchandisers set the prices. A freeze-out in the aftermarket by new car manufacturers and importers."

David H. Wallace, president and CEO of National Automotive Superstores, a 14-store chain based in Pensacola, FL, agrees about the rise of large chains being a problem for smaller ones. "Retail sales are dominated by national and/or large regional chains," he feels. The result? "Margins are being squeezed," he says.

This is obviously a potential problem for the independent aftermarket retailer. Is it a real problem for the aftermarket as a whole? Obviously not for those few chains that are already large. Probably not for the consumer in the short run, who usually pays lower prices for product offered by large chains. But, in the long run, having sources of supply of any product concentrated in a relatively small number of hands eventually could lead to reduced competition, with higher prices and reduced product availability.

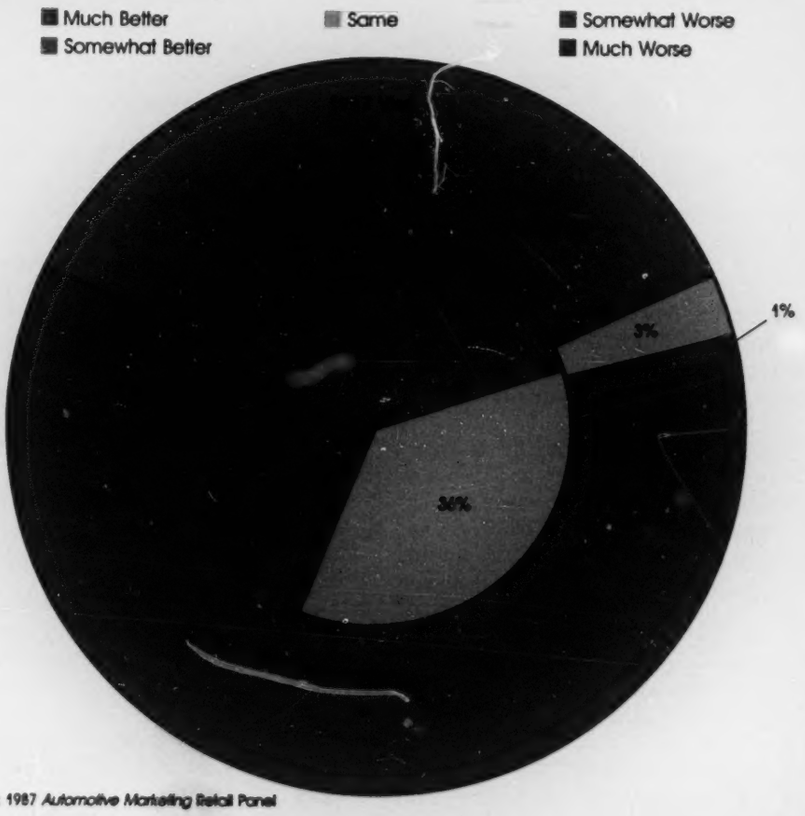
The Future Of The DIYer

There's a Greek chorus of aftermarket retailers out there singing the "death of the DIYer blues." "The compactness and types of control systems used on today's vehicles will eventually lead to little or no DIY customers," believes John H. Davidson, president of Family Tire Center Inc., Marion, OH. Daniel Mahon of Mercury Tire Co., Wilmington, CA, is even blunter. "The backyard mechanic is gone, 'period, paragraph'," he says.

Then, there's the question of whether extended service warranties will discourage vehicle owners from fixing their vehicles themselves, taking them back to the

1987: THE VIEW NOW AND A YEAR AGO

Last year, we asked retailers how they saw 1987 shaping up as compared to 1986. We asked retailers the same question this year. On the whole, retailers are much more optimistic about this year now than they were in 1986.



Source: 1987 *Automotive Marketing* Retail Panel

dealers, instead. Jay's Da-Nite's Sherlock sees everything as part of a single problem. "The future will be affected by extended car warranties *and* the complexity of automotive computerized ignition/fuel injection/emissions closed loop control systems," he believes.

President Marvin E. Berger, Rayco Auto Services, Springfield, PA, is another one of those who worries about extended service agreements. "New car continued service warranties will critically affect the independent service operation just as they were gaining sales from the gasoline stations' elimination of services in converting to 'gas & go' self service."

Even so, the verdict on the DIYer's future is still uncertain. Ron Hicks, of Houser Automotive, Granite City, IL, is one aftermarket retailer who is optimistic about it. According to him, there will be more DIYers active in the future than there are now. The reason? "The cost of labor, which can run to $45 an hour, makes it tough for the average household head to take his vehicles into a shop."

Auto Works' Gallagher agrees that DIY will continue to boom. According to his observations, "more car owners are performing basic maintenance themselves and the do-it-yourself market is growing."

And, M.J. Frank, president of Frank's Auto Supply, Uniontown, PA, thinks the potential problem can be resolved through the introduction of changed "underhood products for DIYers." That hits the ball to the manufacturers' courts. And, that may well be the eventual answer, for manufacturers have risen to the occasion in the past very well, introducing new products to meet new needs, while phasing out ones that are no longer needed. Today, it's hard to find a replacement manual choke knob but it's easy to find a third brake light to install on an older vehicle.

Solving The Problems

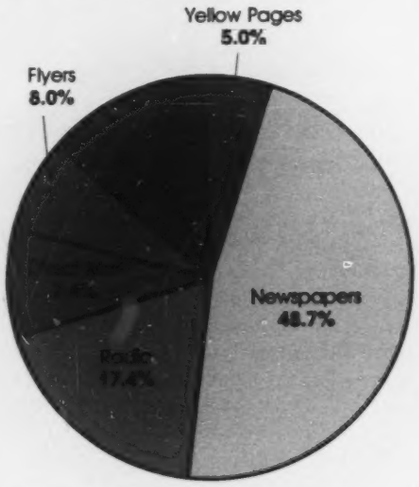
Frank's is just one possible solution to the problem. Different retailers have more and different solutions for these problems.

Some involve expanding the customer base. Yale Weisman, secretary-treasurer of Chicago's Blue Star Stores, says his chain is changing its approach to become "more consumer oriented" by adding hours. John F. Goodsell, president and chief executive officer of Grand Auto, a West Coast chain of 113 stores, reports that his company has introduced a new advertising campaign "to expand our customer base by attracting a growing body of affluent, young auto enthusiasts."

Another solution involves increasing service operations. Goodsell adds that, "in response to the increasing sophistication of automotive technology, we designed a cleaner, more comfortable prototype for Grand Auto service shops. While upgrading these shops will be a continuing cost factor in 1987, the growing demand for courteous, professional repair service makes them a critically important aspect of our total business."

WORKING FOR FUTURE GROWTH: ADVERTISING

One way that many retailers are attempting to solve growth problems is through increased advertising. The average retailer, we found, spent 4.4% of his annual sales on advertising. And, a surprising amount of it goes to electronic media.



Source: 1987 *Automotive Marketing* Retail Panel

Grand is far from the only retailer to see service as a key ingredient to future growth. For example, Bob Karcher, president of Dutchie's Auto Parts, a five-store chain in Vancouver, WA, thinks it's going to be so important that he is launching into a major program to bring service bays to his chain in the near future.

Both Houser's Hicks and Frank's Frank see a solution to the potential decline of DIY activities in consumer education. Says Hicks, "most car owners don't have the knowledge to work on their cars, and use lots of guesswork." The answer? Training customers to work on their vehicles, done by both retailer and manufacturer.

Expansion plays a part in a number of growth patterns. "Expanding into the import aftermarket," is the plan of Bridgeport Auto Parts' Tim Conway. Auto Parts World's Dabrowski and Mike Jones of Jones & Jones Inc., McGehee, AK, look for overall expanded inventories to help future growth.

Employee training, both initial training in sales and product knowledge and later retraining as needed, is one key to success as seen by Jim Cumming, Cumming-Henderson, Santa Clara, CA, and Mercury's Mahon. Family's Davidson adds that "ongoing service training and equipment updates" is necessary as well.

A.A. Auto Parts' Lathrop has a variety of solutions. Her chain is "looking for a non-traditional niche in the market. Providing more community service instead of paying for advertising. Upgrading the level of employees. Sponsoring on-going training programs. Reassessing hours, locations, especially as they relate to female customers. Firing any employee who has *one* customer complaint. Fiercely protecting our independence even if we become a dinosaur in the overall marketplace. Looking for better buys, more advertising dollars from suppliers. Reducing show attendance costs as too high and too much duplication, and depending more and more on reps. Not following the 'herd'."

Finally, Jay's Da-Nite's Sherlock, sums up his plans to meet the future: "We are modernizing our stores and store layouts. We are buying and stocking on a more analytical basis. We continue to train sales and management personnel. We work hard. We pray a lot."

It can't hurt. ■

WORKING FOR FUTURE GROWTH: IMPORTED PARTS

Record numbers of imported vehicles are registered annually. Yet sales of parts and accessories for these vehicles has lagged, retailers tell us. Hence, this area still represents a future growth area.

Source: 1987 *Automotive Marketing* Retail Panel

WD RETAILING

The Ma and Pa jobber store is on the way out; the warehouse owned store is on the way in. Here's why.

by **John Wirebach,**
Senior News and Feature Editor

The warehouse-owned jobber store is certainly not new. Traditional WDs such as Alexander-Seewald in Atlanta have owned stores since the 1890s. In fact, most of the original founders of the Automotive Warehouse Distributors Association (AWDA) began as jobbers, and many again own stores today.

But in recent years the number of warehouses owning stores has increased dramatically. Today, there are roughly 3,500 WD-owned jobbing stores; that's about 12% of all jobber stores. Although some of the WDs may truly be captive or "paper" warehouses (owned by jobbers), an *Automotive Marketing* count turned up 2,017 stores owned by AWDA member warehouses.

The AWDA warehouse store chains range in size from Genuine Parts, Atlanta, which owns some 450 NAPA stores, to Quality Automotive Warehouse in Baltimore, MD, which owns one store.

Although Genuine Parts primarily services about 6,000 independently owned NAPA outlets, company stores play an integral part in Genuine Parts strategy and have done so since the 1920s. Genuine Parts opened 49 company-owned stores last year and expects to continue the trend. According to president Bill Hatcher, the 450 company stores accounted for roughly 25% of Genuine's $1.6 *billion* sales in 1986.

Genuine Parts has no preference for company-owned stores over independent jobbers. "Our philosophy is to be a good supplier to NAPA jobbers," Hatcher said. "I'm not in a position to speak about an industry trend, but we're opening more metro stores. We look where there's no NAPA business, where we have no distribution; mainly in metropolitan areas. Where NAPA already has good stores, we leave them alone. It's a matter of investment—real estate, inventory. For the individual jobber, it's impossible to go in with three-four-five hundred thousand dollars in start-up costs."

On the other hand, president Stanley Bond says Quality Automotive Warehouse owns only one store and doesn't want any more. "I own the store where our business started in 1935," Bond said. "But my real business is my 450 independent accounts. The store services a few dealer accounts. We don't encourage new accounts, we don't encourage walk-in trade. We don't travel any salesmen."

And there's also Charles Scheer, chairman of Prime Automotive Warehouse in Middle Village, NY, who recently acquired nine stores. "I don't know if it's a trend or not," Scheer said, "but I know this: The independent warehouses that are on concrete and progressing are ones that own 8-80 stores. The big get bigger and the small are going to die. My gut feeling is that the only way to go is controlled distribution. You can give independents 7-9% discounts, then all of a sudden somebody gives the jobber 10% and you've lost a customer. So now I'm a retailer," Scheer said, laughing.

The Reasons Why

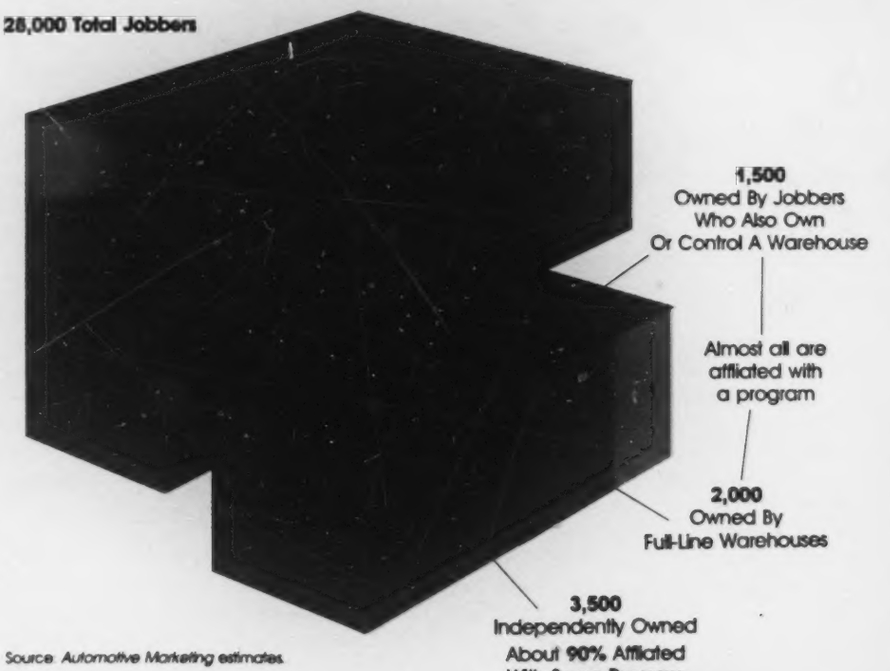
Virtually every WD interviewed expects the trend toward store ownership to continue. Selling to independents may be the "cleanest way to operate," as one WD put it, but WDs are in a store-buying mood. The reasons are threefold:

- First, warehouses are selling less to jobbers. The latest Motor and Equipment Manufacturers Association (MEMA) jobber study shows that full-line WDs account for only 61% of the average jobber's dollar volume purchases, a 6% drop since 1983.
- Secondly, while programs such as All-Pro, Bumper to Bumper, Carquest, and others have turned jobber/retailer stores into close copies of retail stores, and retailing now makes up 36% of jobber business, the retail chain stores have expanded their parts offerings and now can offer parts that previously only jobbers sold. The jobber's advantage in SKUs is slowly eroding.
- And, the MEMA study also shows that independent jobber stores are going out of business at the rate of one a day.

All three trends will continue. The increase in mergers, acquisitions, and the growth of programmed distribution, shut out some suppliers from some markets. As a result, suppliers made it easier for large jobbers to buy direct. The MEMA

A LOOK AT THE JOBBERS

Here's how today's jobbers shape up.



Source: *Automotive Marketing* estimates

WD RETAILING

study found jobbers buy 28% of their dollar volume direct. Jobbers are also buying more from discount WDs that offer few or no services but sell fast-moving lines cheaper. Dirk Hoyt of Hi-Lo Consolidated, Houston, (a 73-store AWDA member) suggested, "If WDs don't buy their customers, eventually they're not going to have many people to sell to." Hoyt says this has already occurred in Houston where times are tough. "There're virtually no unaligned stores left. There's a real shakeout. Several warehouses have gone out of business, and several have such bad business they're selling direct to DIYers."

On the retail side, retailers will continue to expand their parts offerings. In the next five years or so, the average retailer will be in the 10,000 SKU range. Last year, *Automotive Marketing* spoke with such firms as the Accel Division of Echlin, a company that previously would not sell retailers. But when the company finally did: "Our sales really exploded." Stories such as this will continue.

There are 21,000 single-store, independent jobbers and quite a few are on the verge of selling out. A Midwestern WD asked, "Where are small jobbers going to get the money to put new numbers in? I'm talking 24,000 new numbers in the next few years. The investment is $25,000 just in fuel injection. You're talking about jobbers whose take-home profit at the end of the year isn't much more than that. Then you have rents doubling in some downtown locations. Without thinking hard, I can name you six jobber failures in the last year. Financial needs alone will make WDs get more involved in controls."

Retailing Requirements

The DIY boom was the reason most WDs got into owning stores. The first phase came with programmed distribution which tied jobbers and warehouses closer together and allowed better pricing and merchandising programs. Now, some 17,000 jobbers are involved with a program to some degree.

To some degree is the operative phrase. Several WDs conceded that at best slightly over half their customers bought 80% or more from them. Even more importantly, the warehouses still lack control of jobber-owned stores. And, while the programs made the jobber competitive in smaller markets, in major cities the jobber was still priced out of the game. For one thing, his pricing was still higher in competitive product lines; but even more importantly, very few entrepreneurs could afford retailing locations. While traditional jobbers could go anywhere and service dealer customers, jobbers who wanted to retail had to go to expensive retail-oriented locations. So, most of the WDs involved in programs took the logical next step and opened owned jobber/retail stores in order to compete. Today, most of the major program groups—NAPA, Big A, Parts Plus—are competitive in metropolitan markets because their member WDs own stores.

Many of the largest and most successful WD store operations are wholly retail such as Hi-Lo and Parts City (31 stores owned by Alexander-Seewald, Atlanta), or primarily retail such as the 82-store O'Reilly/Ozark chain, Springfield, MO; the 87-store Carquest chain owned by Straus-Frank, San Antonio, TX; and the 33-store Taylor Parts chain owned by TPS, Andalusia, AL.

Mike McTeer, advertising manager at O'Reilly/Ozark, said the trend will definitely continue. "It has to. The control factor is so important. Based in a competitive market, unless you have absolute control of the program and the pull through, you're lost. The jobbing industry up to now has been a haven for Ma and Pa. It's so difficult to deal with some of them. They've been doing it their own way for so long. You try and develop and work your program, and a lot of independents don't give it a chance to work. And you just can't march in and say, 'Do it.' In our own stores, if a program isn't working, somebody answers for it. A lot of independents have fallen far behind, and their future is bleak."

There are also fringe benefits to retail operations, as Alexander-Seewald's Jack Alexander III pointed out. "The Parts City Stores complement us very well," Alexander said of the 31-store operation that makes up about 30% of Alexander-Seewald sales. "They allow us to stock retail items that would not have the volume otherwise, and we can offer the retail items to our independent jobber customers." Parts City stores range from 3-12,000 sq. ft. and stock 8-15,000 part numbers, a distinct advantage in competing for the DIY dollar.

Still, there are disadvantages, Alexander said. "If you do one thing well, you may do two things half as well. You're running two programs with the same management. There're equal strengths on both independent and company sides. We're not going to leave our independents in favor of retail. Each side gets better because of the other."

If anything, Alexander said, the independent stores the warehouse services are increasing faster than Parts City stores. "I'd have a hard time deciding whether I'd want ten new company stores or ten new independent customers. Last year we opened three Parts City stores and signed up 22-23 AutoSure jobbers."

But the company-owned stores are necessary in metropolitan areas because of "the inadequacy of 'Ma and Pa' stores to remain competitive in metropolitan areas." Recently, Parts City opened stores in Savannah, GA. Alexander explained, "That's exactly the situation we saw happening. Jobbers in Savannah were closing one by one. The survivors were either NAPA stores or retail chains. The jobber base was not the type business we wanted to build our business on. After we opened our seven Savannah stores, we had four stores join our AutoSure program. They saw our stores and said, 'Maybe I can do that too.' So, the programs complement each other."

The Parts City/AutoSure/Alexander-Seewald operation seems like an ideal way for the WD to go to market in the 1980s. The combination offers something for every kind of customer.

Pluses And Minuses

The key advantage for a warehouse owning stores is control. "You're able to determine marketing, merchandising, and advertising strategies right away," Ozark's McTeer said. "And the business is always there. You don't need salesmen. They can't quit buying off you."

Still, some other WDs are less enthused and more cautious about the prospect of WD-owned stores. Bob McKenna, NAPA president, said, "I think the trend is there. Definitely in some big markets. Our five member warehouses own about 500 stores. But it takes a big investment. And, it's not without problems. It's very difficult to run stores, especially in towns a couple of hundred miles away from where your two or three key managers are based. Our intention is to continue to operate through independents, locally owned and operated jobbers."

And Fred Pisciotta, president of APS, Houston, which owns 116 Big A stores, and supplies some 1,500 Big A jobbers, said, "I know a lot of people think owning stores will be their salvation, but some WDs are going to be surprised. A lot of people who are buying stores have a WD mentality, and they will find problems. They won't know they don't have the skills until it's too late. We run our stores well today; but once we didn't. You're dealing with different classes of trade. Customer service is a different mentality. A WD business is a disciplined way."

Pisciotta's cautions are well taken. The WDs *Automotive Marketing* spoke with all found problems operating stores, although none that were insurmountable.

Running The Stores

"The big problem? You buy a store and

you don't get the people you want to run it," McTeer said. "It takes real money to find and develop these people."

At Motive Parts Warehouse, West Hartford, CT, which owns 23 Acme Auto Parts Stores, Jim Fine noted that store operations are completely different from warehouse operations.

"They are two distinct businesses from a management standpoint," Fine said. "With multiple stores, you need managers. The jobbing business is a seven day business. The warehouse can close on Saturday and Sunday. Cash controls. There's none in the warehouse; jobber stores have problems. You deliver by orders from the warehouse. Jobbers have to hot-shot deliver and that's costly. In the warehouse if business falls off, you can more easily adjust your overhead. But the jobber can't. There's only four people or so, and the same number of hours to work. It's a double-edged sword. We can do business with just three people in the warehouse: a director of purchasing, a sales manager, and an operations manager. Stores need regional managers and store managers, and assistants. Plus your countermen have to be very good to deal with DIYers and dealers. From a management point of view, the warehouse is much easier to run."

Add to this the comment of Jack Alexander who noted that his advertising staff has to be careful when running ads to make sure the right products appear in the right set of ads. For example, the retail stores stock Fram filters while the AutoSure stores stock Wix.

And Mike Kirkham, president of KAPS Automotive Warehouse, Blackfoot, ID, which owns 25 Kirkham Auto Stores, noted that the advantages can equal the disadvantages. "You have a base you can control. You get input from the jobber's point of view on the consumer level. You see the market situation through the eyes of the jobber. But you have more people, and more to worry about. It's like taking your warehouse inventory, scattering it across the state of Idaho, and trying to manage it."

Speaking of inventory, a Midwestern WD hired good retail people and "more or less, left them on their own. I told them to buy what looked good in the front of the store." Now, he's applying a strict weeding out process to owned-store inventory lately. "I lost a little control. I allowed my managers too much authority."

Friction

Along with management challenges, the WD with stores also has a conflict with his independent customers that does not lend itself to easy resolution. "There's always a tendency for the independent jobber to feel you're favoring your own stores," Kirkham said. "We make a profit center of our chain so it has to compete like any other jobber. Sure, we favor some stores. As they support us, we support them. You do these things for me; I'll do these things for you."

WDs have to bend over backward to assure independent customers their own stores are paying the same price for goods. As McTeer said, "Many times independents feel you're giving concessions to your stores. You don't care about us. When you're growing rapidly, it's a delicate balance. You never convince everybody. There're always a couple of jobbers who feel they're not getting the best deal."

The conflict can be a sticky one and most WDs prefer not to discuss it. "Sure we talk about it a lot with our customers. They don't like the idea of my owning stores. I have a lot of answers for them. Which one do you want?" said one wryly.

By and large, retail operations such as Alexander-Seewald's Parts City cause the least controversy. It's strictly a retail operation and thus not a competitor for traditional jobber customers. But for the WD with stores that are more dealer oriented, and often competing for the jobber's traditional customers, there can be more serious conflicts.

Selling Direct

Many jobbers feel and fear more warehouses will soon sell direct to dealers and installers. One recent jobber study found 51% reporting that WDs sold direct to dealers. One WD noted that "a lot of people are paying lip service to the traditional industry. They're telling people all the right things. Then they turn around and sell direct."

One WD candidly admitted that he owned one store simply to sell to large installers at jobber price. "I've got a couple of dozen jobbers who are too costly to service. I've got to have a thousand a week from a jobber or forget it. If I can lock in a few large service dealers by selling at jobber price, why not?"

To counter this kind of feeling, NAPA's McKenna stressed that NAPA's recent move to service the Montgomery Ward stores was done through NAPA jobbers rather than direct from NAPA distributors. There are 292 Ward stores, and each has its NAPA jobber selling it at Master Installer prices. The jobber deals with the store as just another account. "It's a hell of a deal for our jobbers," McKenna said. "One jobber per store. Whichever is closer. The jobber gets all the profit out of it. And all but 40 or so are independent jobbers."

Still, the extra 22-23% price break the WD can offer dealer/installer customers by selling direct can make the difference in selling the specialist. At least one WD said the only way he could sell the local fast lubes was direct. "The jobber can't sell them because of price. He can only sell them on an installer program and that's too high. The warehouse has to sell him and rebate the jobber." Ironically, this WD feels the first WD to sell direct in any area is usually the WD who lacks any controlled distribution.

Although jobbers still don't like the idea of WDs running stores, most WDs have made efforts to avoid direct competition, opening stores only where they have no distribution. However, the idea of WDs selling direct infuriates jobbers. In fact, A group of Florida jobbers is suing five Florida WDs for selling direct. Mike Boyle, a Tampa jobber, said that 80 Florida jobbers closed in 1986 and his store is suffering. "We have WDs going out and openly soliciting our customers," Boyle told me. "They're selling them at jobber price. The FTC is very clear. If there's a price difference, it must be justified. You can't arbitrarily eliminate functions to give better prices." The suit has just finished the discovery process, and Boyle expects to go to trial by Fall.

What Does It Mean?

The concept of warehouse-owned stores is firmly in place. Half a dozen WDs used the same phrase, "I want to control my destiny." In the long run, the result of warehouses owning or controlling stores will be a traditional market that looks more like the retail market. Owned stores can compete for the retail dollar as Parts City, Hi-Lo, and O'Reilly have shown; and, they can do a better job of selling the dealer/installer market as the large programs have shown.

And what about the independent? The independent jobber is caught between the retail chain controlling the retail market and the controlled jobber doing a better job of serving the dealer/installer market. Hi-Lo's Hoyt said, "The jobber store of the future is reverting to the jobber of the 1960s. It's not so much a case of dwindling DIY sales, but the jobber just can't compete profitably. But the jobber can go for the installer. The installer and the dealer don't care about price. They want the right part and the right service."

Hoyt seems on target. All the major programs have announced programs to help dealer sales. If the programs can do a better job of selling the dealer/installer for their controlled or owned stores, and continue to get a fair share of retail business, the independent jobber is in for very hard times. ■

FLEXIBLE BENEFITS

BENEFIT YOUR BOTTOM LINE

Perhaps it's time to change the insurance package you offer your employees to one that better meets their needs—and one that will save you money.

by **Gail Krueger-Nicholson,**
Senior Editor

Traditional benefits packages are getting the gold watch. These workhorses of corporate life are slowly being forced into early retirement to make way for flexible benefits packages that more exactly meet the needs of today's employers and employees. Aftermarket firms should be ready to take advantage of these plans.

Flexible benefit plans, sometimes called cafeteria plans, allow workers to pick and choose among of benefits. Large companies typically sponsor plans that include medical insurance with a range of deductibles from $100 up to $1,000, dental plans, optical plans, life insurance with varying values, long term disability, and company sponsored cash or retirement accounts, also known as 401(K) accounts.

Some programs also offer health maintenance organizatons (HMOs) as alternatives to medical insurance. Many plans allow employees to set aside pre-tax cash from their salaries to pay for benefits that are not usually covered by health insurance plans, such as contact lenses, cosmetic surgery or child or elder care.

Small firms such as aftermarket retailers with anywhere from 50 to 1,000 employees, can now sponsor scaled-down versions of these plans as well.

These flexible benefit plans are gaining popularity. Towers, Perrin, Foster & Crosby, a New York-based consulting firm, predicts that among companies with more than 1,000 employees, the number with flexible plans will more than double in the next two years.

The American Management Society (AMS) published a flexible benefits survey in March of this year. AMS spoke to 309 large, medium, and small companies in the U.S and Canada. Some 20% of the companies they spoke to had a flexible benefit plan. Only 17% did so in 1986. Another 48% of the companies surveyed had employee assistance programs (EAPs) and 47% had a wellness program. Childcare programs were offered by 6% of the company survyed by AMS. See our sidebar story for a definition of these benefit programs.

Not A New Idea

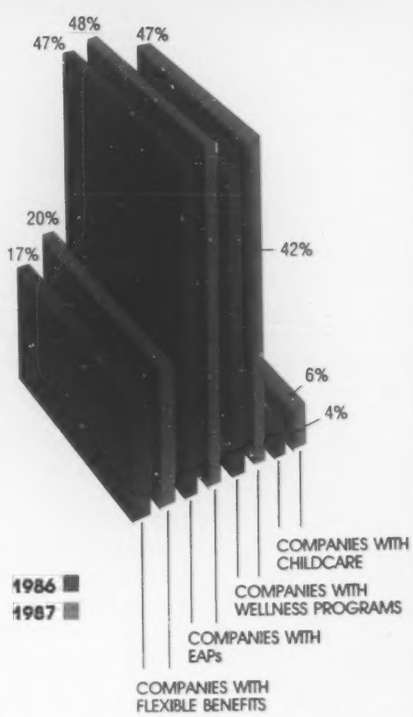
Flexible benefits plans have been around for a decade, but compensation specialists predict the popularity of flexible plans will to take off soon for at least four reasons.

- First, large and small employers seek ways to control the skyrocketing costs of health care and life insurance. Flexible plans let them manage those costs.
- Second, employees seek benefits that match their lifestyle and economic needs. The one-size-fits-all benefits packages of the past, designed around the traditional male breadwinner's needs, no longer meet those needs. Flexible plans do.
- Third, recently developed computer software puts the management of flexible plans within the reach of almost any firm with a pc.
- And finally, the revised tax legislation leaves such benefits packages, and their attendant 401(k) accounts almost unchanged, according to experts at the national accounting firm of Touche Ross. Many firms waited to jump on the flexible plan bandwagon until the implications of tax reform became clear.

Controlling Costs

Controlling health care costs is critical to aftermarket companies. A recent Harvard Business School study noted that from 1982 to 1983, health care costs for the Fortune 500 industrial companies and 250 of the largest non-industrial firms equaled almost one quarter of their after tax profits. If rising costs go unchecked, the study concluded, health care expenditures will wipe out corporate profits by 1991. The effect could be even more drastic on the small and mid-sized companies that make up the aftermarket.

A flexible benefits plan allows employees X dollars to buy items from a benefits "menu" instead of giving employees a set package of benefits. If health care costs soar, the employee—not the employer—



Source: 1987 Administrative Management Society

FLEXIBLE BENEFITS

decides whether to pay more of the costs or to take less coverage. Employee participants, not the company, swallow the largest part of any future premium increases. This makes employees aware that benefits are a form of compensation, like wages. However, the employees at least have the final say on how to divide up and spend their benefits dollars.

In this way, flexible benefit plans, in contrast to traditional benefit plans, are a proven health care cost management tool for employers. A mid-1985 survey by Hewitt Associates, a New York-based compensation consulting firm, showed that of 120 employers with flex plans in place, 24 had performed their own financial analysis of flex plan costs. Of those, 21 said their flex program either reduced or limited benefits costs increases.

The Changing Workforce

As the workforce changes, benefits packages need to change, too. The traditional male breadwinner, the sole support of his family, is no longer the dominant worker. He is now joined by working women. Some of these women pull down salaries equal to or greater than their male partners and some are the sole support of their own households. In fact, some insurance companies, Aetna Life Insurance Co., Hartford, CT, among them, believe that the traditional benefits plans geared to the male breadwinner family now suit only 15% to 20% of the nation's workforce.

Not surprisingly then, a survey of employees conducted by the Philadelphia office of the accounting firm Peat Marwick found that no uniform benefits plan is likely to satisfy more than 20% of any employee population. According to their survey, uniform benefits plans are unlikely to meet employee needs or preferences because choice was the most important factor in employee statisfaction with benefits programs.

The Computer Connection

Companies with under 1,000 employees can now offer these popular cafeteria style benefits, an option that was once only available to the "Big Boys." More than a dozen major insurance companies, as well as consulting firms and brokers, now market flex programs tailored to small companies.

Insurance companies have long sensed a big market for these plans among small companies. But small firms generally lacked the financial and personnel resources needed to manage such programs. And the insurance industry lacked the technology to create a cost effective system for pricing and administering a small company flex plan.

The picture changed in 1985 with the introduction of several comprehensive software programs that work with desktop computers at employer sites. Several insurance companies—including Aetna, Prudential, and Unionmutual—now market such systems to small firms.

The insurance companies explain the program to employees, enroll them, and administer the record keeping, claims processing, and accounting. The cost of purchasing and installing a turnkey system varies. Aetna estimates it costs from $25,000 to $50,000 for a firm with about 1,000 employees. The Aetna system works on IBM personal computers and links up with the main frame at Aetna.

Small companies can launch a flex plan for as little as $12,000 by leasing software systems from some insurance companies at monthly rates ranging from 85 cents to $2 per employee.

Lucky Tax Break

The revised tax legislation held the line on flexible benefits programs. There have been no few changes to these programs under the new law. All the rules covering flexible benefits plans are still in place, including the provisions that allow employers to establish 401(K) accounts for their employees.

But that doesn't mean you should rush to put a flexible plan in place. These are complicated plans and should be handled by professionals.

Overall, it is too early to assess the effectiveness of flex programs for small companies. The market is so new the even Unionmutual Insurance Co., the pioneer in offering flexible packages to small business, has managed to sell only 200 or so of its special small business programs. But flexible benefits packages are the wave of the future. ■

SERVICE MARKET REPORT

MACHINES DO NOT MAKE YOU MONEY, TUNE-UPS DO

Diagnostic wonder machines do not replace the tune-up when it comes to making money in your service bay. Here's why.

by **David A. Evans,** Contributing Editor

Offering serious diagnostic capability is *hard* money. Not easy money. The easy money, it seems, is in the never-to-die concept of the "tune-up."

The "tune-up?"

I admit, with sheepish reluctance, I was one of the earliest proponents of the "death of the traditional tune-up." Fortunately, I had lots of company, with lots of other trade writers, manufacturers, futurists, and experts of the service ilk predicting the rapid and final death of the "tune-up."

Boy, were we wrong!

I was at an Equipment & Tool Institute gathering where one savvy old timer in our business said, "If the tune-up is going to die, isn't there something which can replace it? It seems a shame to lose a concept which has worked so well, for so many years."

If I had been really good at fortune telling, I would've told him, "Don't worry. It is the desire of the motoring public, and the power of the media, which will keep the tune-up alive. You and I have no power to stop it."

David A. Evans has participated in the aftermarket for over 25 years. He has worked as a line mechanic in a dealership, has owned a chassis shop, and has owned an 18-bay general service facility. His technical, sales, and management training material are in use by a variety of well-known automotive manufacturers. Dave would be happy to take your questions or comments, and can be reached at (312) 394-5349. We would also appreciate your comments.

What Is A Tune-Up?

A tune-up is what the vehicle owner wants it to be, and perceives it to be. And in many cases, the vehicle owner wants and perceives what *the media* tells him he should want and perceive. In fact, if anyone needs evidence that advertising *can* create wants and needs which didn't heretofore exist—if anyone wants to prove advertising is a diabolical plot—tune-up might be the ideal example.

Automotive Marketing's Contributing Editor Edward L. Kaufman, of the marketing consulting firm of Lindsey-Kaufman Co., Tenafly, NJ, has been quoted as saying "The future of the automotive service business will belong mostly to those retailers who attain media dominance." And the concept of tune-up proves him right.

To do a tune-up on your customer's vehicle, you typically do the following:

- Replace the plugs.
- Replace the air filter.
- Replace the fuel filter.
- Check, and replace if necessary, any faulty plug wires, the cap, the rotor, the points and condenser.
- Adjust the ignition timing, if required.
- Set the engine idle speed, if required.
- Adjust the engine idle mixture, if possible and required.

This is a far cry from the traditional mandatory replacement of the plugs, points, condenser, cap, rotor, plug wires, air filter, fuel filter, PCV valve, breather filter, and the cleaning and adjusting of the carburetor, including setting the float level, idle mixture and accelerator pump setting, plus setting the engine timing.

These mandatory requirements are no longer mandatory. Why? Because *only* the plugs, air filter and fuel filter truly have a measurable, finite service life. And you can read the life expectancy in any vehicle owners' manual.

The new order of battle says, "If it ain't broke, don't fix it. And if it is broke, fix only what's required."

The Opportunity Is At Hand

In order to do the above work specified for the modern vehicle, you need to have a few more tools than the average DIYer. While doing exactly what you promise in terms of a tune-up is *all* you need to do—and *all* you need to guarantee—if the vehicle still runs like garbage after you do the job, you *do* have to tell the customer *why* it runs like garbage. This means you need an engine diagnostic computer with four gas analysis capability and a printout device.

You may, as the tune-up franchises do, elect to send the customer down the road to the dealer, or some other vendor, to get the total fix. But you still are required to say why you are not doing the work.

Also, just because you offer a simple tune-up which is similar to tune-ups offered by other vendors in the marketplace (and that *is* your standard—there is no sense flying in the face of a standard established through the media and customer assent), it doesn't mean you can't replace all of the expensive and profitable EGR valves, gaskets, carburetors and fuel injectors which your scope does show as bad.

But you must start with the tune-up. Not the diagnostic routine. (I'll tell you why later.) And the tune-up must be understandable to the customer, and priced competitively.

After you get the vehicle into the bay—and it *is* the media which does the trick—what you do, and what you bill, is completely up to your training, personnel, and your sales objectives.

Why Diagnostic Work Is Hard Money

As I said, serious diagnostic capability is *hard* money. And here's why.

SERVICE MARKET REPORT

From time to time, the idea of using a diagnostic drive-through lane as a means of boosting parts sales is advanced by one writer/manufacturer/magazine or another. But it never seems to get off the ground. One store might do it—for a while. But if the idea is to:

- Provide an "independent" source of information regarding what needs to be fixed/replaced on the vehicle,
- Do a detailed and thorough work-up so *everything* can be purchased and fixed at one time,
- Provide printed evidence the customer can use during a parts shopping spree,
- Give the customer the ability to run the vehicle through the diagnostic facility a second time to verify repairs,
- Do the above diagnostics at reasonable and promotional pricing,

then the idea just doesn't fly. It is a hard way to make money. While it seems to reasonable on the face of it, there is a lot *wrong* with this idea. Let's take the items, in order.

• Independent Source

Clearly, the computerized diagnostic console is not independent. It is dependent upon the ability of the attending technician to interpret and qualify the results of the computer test.

As such, the technician can be right—and wrong. No one gets it right all of the time. Indeed, there are all sorts of pitfalls in the vehicle, the computer, the program, and the sensors all destined to make the computer and technician wrong, too often. As such, the promise of "once and for all" cannot be kept.

The independence of the source is also hard to prove when the machine is in your shop, and your shop will make the repairs and charge the fee.

• Everything Purchased At One Time

Every average DIYer *I* know spreads out his repairs. Whether he lacks the time or money to do them all at once is not relevant. But, he does elect to spread his work load out.

As such, he has to decide which of the repairs to do at which time. In doing so, he cuts down on the ticket value, thus apparently diminishing the promotional value of the diagnostic work-up.

On today's vehicles, we need to remember, the typical parts store (full line jobber, full line automotive chain, or specialist store) does not, will not, cannot, carry all of the parts required for many (make that *most*) repairs. This, too, negates the effectiveness of the complete parts order for the one session job.

DIAGNOSTIC PROMOTION

We asked our Retail Panel: "Have you ever done a drive-through diagnostic promotion?"

Yes	18%
No	82

Source: 1987 *AM* Retail Pannel

• Printed Proof

This is great. No problems here.

• Repeat To Verify

You'll do this once. Maybe twice. Then never again! It takes between 20 and 45 minutes to do a complete diagnostic test sequence. No one can afford this—neither the store nor the customer.

Plus, there is a nasty trap here: the computer might show something *additional* is wrong, the second time through. And, the wonder machine may show additional work the third, fourth, and possibly each additional time the vehicle goes through the lane.

This recursive nature of the test process can lead to a vehicle which is *never* repaired completely. All good shops learn to avoid this trap by *not* re-testing to verify the work.

• Promotional Pricing

What everyone who has done the test lane bit seems to have learned is this: people are not anxious to pay to learn what is wrong with their vehicles. Telling someone you'll tell them everything they need to fix is simply not productive. After the first rush of enthusiastic vehicle nuts, the run of customers trickles off to almost nothing.

Diagnosing History

In the mists of time past (about 1954), a visionary car dealer in Chicago by the name of Zollie Frank installed a large drive-through diagnostic test facility in his Chevrolet dealership in Chicago. For $10 back then (Remember, this was more than three decades ago.), you could take your car through this total inspection, dynamometer-and-analyzer operation, and "learn all of the things wrong with the car."

This diagnostic test lane, called "Electrac," operated until just this year. The building was recently torn down.

At the time "Z Frank" installed Electrac, it was considered something of a sensation in the automotive marketplace. This state-of-the-art dyno/test facility was viewed by every automotive freak in Chicago—and probably the rest of the Midwest—as a mecca for repair. Pundits in the consumer and trade press designated it "the wave of the future," and predicted similar fee-for-service, drive-through lanes around the country.

The next time I heard about such a diagnostic drive through facility, it was also in Chicago—about 1977. A large repair facility had installed the first *computerized* diagnostic hardware and was using the gimmick of having a young lady hook up the vehicle, run the test procedure, and hand the customer the printout.

This test cost $30, as I remember. The drive through facility and its sponsoring garage are not in business today. Some years later (about 1979), I had a chance to learn about a "drive-through" diagnostic bay which was operated by a New Jersey jobber.

This drive-through facility was reputed to have boosted parts sales at its connected jobbing store considerably.

At that time, it was easy for the non-distribution observers of the automotive trade to predict a rash of similar drive through diagnostic facilities. However, it certainly was *not* followed by countless other such facilities, and is not in business for that purpose, today, as far as I can determine.

The truth is that these diagnostic facilities aren't all that profitable. Even if you had a big enough market area, you could not keep up the customer flow. Again, you are faced with the problem of not being able to diagnose everything wrong with the vehicle—or of being able to pinpoint enough to allow easy sale of lots of merchandise.

Tune-ups can do it all for you. ■

INSPECTION SERVICE

We asked our Retail Panel: "Do you offer a special checkup/inspection service?"

Yes	32%
No	68

Source: 1987 *AM* Retail Pannel

THE AFTERMARKET GETS MORE COMPLEX

Globalization means that the world is not only smaller, it's also more complex. The trend affects every aspect of the aftermarket. Here's an overview.

by **Edward L. Kaufman,**
Contributing Editor

Remember the good old simple days? The days when 95% of cars bought by Americans were produced by American carmakers in U.S. and Canadian plants? And when all components used to produce those vehicles were also produced in domestic plants?

Today, the vehicle market in the U.S. is a mish-mash of cars. Some are domestics produced in North American plants, some are direct imports produced overseas, some are transplants made in U.S plants by foreign manufacturers, some are captive imports made offshore and sold by domestic manufacturers, and still others are joint venture products such as the Chevy Nova.

This change was brought about by globalization, the expansion of markets from national ones to those which extend beyond countries' borders.

Only modest growth in new car sales overall is predicted between 1985 and 1990. For this reason, the market share losses of domestic producers are especially painful. Sales of domestic cars are expected to decline from 68% to 56% of the total in 1989, according to projections by International Strategy Consultants. The proportion of domestic parts is likely to drop even more. Domestic manufacturers incorporate substantial quantities of foreign-made parts and sub-systems into the vehicles assembled in North American plants. In contrast, foreign vehicle makers—particularly the Japanese—buy relatively few American-made parts for their vehicles, either overseas or here. This is a sore point for domestic parts manufacturers, their trade associations like the Automotive Parts & Accessories Association (APAA) and the Motor Equipment Manufacturers Association (MEMA), and the U.S. government.

The APAA sees domestic parts dropping from 70% of production in 1980 to 61% in 1985, and possibly as low as 41% in 1989. The big gainers? Likely to be Japanese auto parts producers.

Still A Significant Exporter

Largely because of shipments to places like Canada, Mexico and Saudi Arabia, the United States is still a significant exporter of motor vehicle parts and accessories. In 1982, the United States had a favorable worldwide trade balance on parts and accessories, despite the fact that the U.S. imported $1.7 billion *more* in parts and accessories from Japan than that country sourced from us.

Since then, U.S. exports of parts and accessories have risen modestly—but our imports of these items from Japan have more than tripled—rising from $1.8 billion in 1982 to $6.0 billion in 1986! Our world wide trade deficit on parts and accessories approached $10.4 billion in 1986: more than half of that was our negative trade balance with Japan. Our $6 billion deficit on parts and accessories trade with Japan includes $2.2 billion in Foreign Trade Zone (FTZ) subzone imports. The latter are imports which are not subject to duty if they are used in assembling products in the United States.

Not An Exclusive Automotive Problem

In industry after industry, not only the automotive industry, the U.S. is no longer the dominant producing nation but the largest single market in the world, and the target for all world class producers. This country's annual trade deficit is approaching $180 billion. Our annual balance of trade deficit with Japan alone is close to $60 billion; motor vehicles and parts represent about 40% of that.

What should we do? Erect high tariff walls? Lots of Americans wouldn't like the results of that action. This include consumers who feel entitled to the best values obtainable on the world market; American business owners and employees who are engaged in importing and marketing foreign-made vehicles, parts and accessories; American vehicles and parts makers who import lines and items to lower their average costs; and finally, our financial institutions. Wall Street believes that protectionism would hurt world trade and lead to a 1930s style world depression.

Active And Passive Tactics

What is the U.S. doing about this problem? Passively, it has been allowing the dollar to fall. This discourages imports by making them more expensive (not a happy solution for the employees at companies like Worldparts and Hollywood Ac-

Domestic	U.S.-based manufacturer, produced in the U.S.
Direct Import	Foreign-based manufacturer, produced off-shore
Captive Import	Assembled off-shore by either a foreign-based manufacturer and/or a U.S.-based manufacturer and imported for sale under a U.S. nameplate (e.g., GM Sprint)
Transplant	Assembled in the U.S. by a foreign-based manufacturer (e.g., American Honda)
Joint Venture/Hybrid	U.S./foreign joint venture, produced in the U.S. (e.g., NUMMI Nova)
Invisible Import	Growing use of foreign auto parts in domesticly produced vehicles

THE AFTERMARKET GETS MORE COMPLEX

cessories which import product!), and it encourages foreign producers to do more assembly and manufacturing here.

And, actively, the country is becoming more cost effective. This involves closing inefficient, older plants, and moving production to smaller, more efficient plants. In the process, American manufacturers also are negotiating more realistic labor rates and work rules.

American manufacturers are also borrowing—or buying—the best ideas of their foreign competitors. Fair enough: foreign producers are frank enough to admit that they got many of their ideas from us. Buying ideas involves joint ventures and licensing. For example, GM obtained ideas for better management of assembly plants from its NUMMI joint venture which produces Chevy Novas with Toyota. More recently, GM's Delco Moraine Division entered a joint venture with Japan's Akebono company to product brake system components here.

Outsourcing: One Pragmatic Approach

American manufacturers also source cars and parts from overseas to become more cost effective. Like licenses and joint ventures, this is a pragmatic approach. American manufacturers of vehicles and parts are saying, in effect, "If their product for this niche market is better designed and of higher quality than ours, let's sell theirs until we learn to improve ours." Thus, GM, Ford, and Chrysler import car lines as well as numerous components for their made-in-North-America cars and trucks. It's said that a key factor in lowering Chrysler's breakeven point is outsourcing.

Foreign parts sourcing is an increasingly important fact of life for domestic parts manufacturers. They began by sourcing items to cover import car lines. Today, they also import substantial quantities of parts for domestic applications.

To some manufacturers, the idea of sourcing foreign parts is a bit like the concept of homeopathic medicine: a little of what hurts you may help you. Suffer from allergies? Try Essence of Ragweed. Sourcing foreign parts can become addictive and lead to excess dependency, though. Manufacturers can wind up shutting down plants and becoming importer-distributors, vulnerable to dollar value declines. Then, what do they do when imports become too costly? It's hard to shift back to domestic production if you have sold your domestic plants.

Domestic	7,480	68%	6,444	56%
Direct Import	2,860	26	2,645	23
Transplant	330	3	1,035	9
Captive	220	2	1,035	9
Joint Venture	110	1	345	3

Another problem complicating the offshore sourcing issue is that large volume customers are inclined to think they can source for themselves. Some chain stores seem to think that globalization means sending buyers to Taiwan. However, there are limits to the items retailers can safely import on their own.

Some larger chains import directly, but most do not. The considerable hazards outweigh the cost savings of container loads of merchandise. Hazards include availability questions (can the foreign supplier deliver as promised?), long lead times between order and delivery, lack of effective guarantees on product quality and service, and currency fluctuations which change the cost of merchandise between order and delivery.

Reliability of supply is a major factor. Sophisticated retailers appear to prefer to source most imported goods from established firms like Worldparts, Rally, Hollywood Accessories, and Allison which can maintain domestic inventories and provide assurance of delivery.

An American Approach: Talking

Finally, as a nation, the Americans are "jaw boning," putting pressure on foreign producers, particularly the Japanese, to give American manufacturers a fair shot at supplying at least some components they use in products they sell in the U.S. Trade associations such as the APAA and the MEMA have aided efforts of our U.S. international trade negotiators to get the Japanese to open up, and help the trade deficit problem. The sixth round of the Market Oriented Sector Specific (MOSS) talks was held early this summer. Automotive parts have been included as a topic in the MOSS discussions between the U.S. government and the Japanese government as the two work to effect better trade relations.

Selling To Japan

Can American manufacturers really obtain business from Japan? Some have. Both IBM, already a major factor in Japan's computer business, and Allied-Signal's AiResearch, a turbocharger supplier, have succeeded on the basis of expertise and technology. If the Japanese need it, and can't buy it at home, they are willing to deal with foreigners.

But, on items available from Japanese sources, the going is tough. The Japanese government has eased somewhat on tariffs and non-tariff restrictions (remember when American-made baseball bats were excluded for failure to meet "safety standards"?). But some Americans say they can meet specifications, delivery requirements, and pricing yet still are passed up in favor of the Japanese manufacturers' traditional suppliers.

The Japanese system of automotive suppliers and sub-suppliers is very structured. At the top are the assembler corporations like Toyota, Nissan, and Honda. Below them is a small number of manufacturers supplying major components and systems. Relations at these levels are particularly close. For example, Toyota and Nippondenso own each other's stock and have interlocking boards of directors. The major component suppliers have their own vassals, smaller suppliers of parts and sub-systems. They, in turn, are supplied by still smaller companies, virtually cottage industries.

From the Japanese point of view, it is not enough to meet price and performance specifications. Their suppliers, regarded as team members, must demonstrate flexibility, sensitivity to customer interests, and a willingness to go all out to meet schedules. They may expend years of patient effort to make the team. It is not an easy system to enter, and not an easy system to be part of. Japanese parts suppliers work on very small margins. Because the Japanese vehicle manufacturers compete with each other ferociously, they constantly press suppliers to reduce prices. John Peters, the U.S. commercial attache posted in Osaka, expects these pressures to lead to a battle for survival among Japanese parts producers.

American parts suppliers are under similar pressures. These will intensify as Japanese parts suppliers set up shop in the United States. Clearly, only the fittest will survive.

On the positive side, we are likely to see a trend toward joint ventures between strong North American and Japanese suppliers. For the Japanese, such ventures can help overcome fears about excessive foreign investment in the United States and facilitate sales to the American OEM. For the Americans, such ventures can facilitate sales of American parts to the Japanese OEM.

Globalization's Opportunity Side

One opportunity resulting from the

THE AFTERMARKET GETS MORE COMPLEX

globalization of the automotive OEM is the potential for world class producers to supply vehicle manufacturers around the world. This applies to U.S.- based parts suppliers, and to European-based manufacturers such as Robert Bosch, SKF, Lucas, and GKN, and to Japanese manufacturers such as Nippondenso and Akebono. Companies like TRW, Dana, and Echlin are well established in serving the European OEM from bases in Europe. Tenneco has bases in Europe and Latin American and has been successful in cracking the Japanese OEM. Champion Spark Plug Co. has supplied the international OEM for years.

Another big opportunity is the U.S. aftermarket for foreign-make cars and light trucks. Considering the possibility that domestic production may account for only 56% of new car sales in the United States in 1989, serving the import car aftermarket is more than an opportunity for U.S.-based manufacturers, marketers and retailers: it represents survival!

A 1984 APAA study, "The Dynamics of the Import Aftermarket," forecast retail sales of parts and accessories for import vehicles rising from $10.5 billion in 1984 to $17 billion in 1989, a growth rate of 10% per year. The study also noted that 70% of all import vehicles were between two and ten years old, the prime age group for aftermarket sales; that import vehicle population had increased in every state since 1980; and that nearly three-quarters of import cars and light trucks in this country were Japanese.

An Influx Of Foreign Investment

Opportunity is also a positive way of describing the increasing presence of foreigners in our domestic economy. They come here to facilitate the flow of exports from their overseas plants to this country, and wind up making considerable investments here. A good example is GKN. That multi-billion dollar British company, a worldwide manufacturer of automotive components, came here initially to develop sales to the OEM and aftermarket of its constant velocity joints. Not long afterward it acquired Parts Industries Inc., which owned importer-distributor Worldparts. Later it bought importer-distributor Beck/Arnley, and two specialty service franchisors, Meineke Discount Mufflers and Sparks Tune-Up Centers.

Foreign-owned parts producers and distributors such as GKN, Bosch, Lucas, SKF, BASF Corp., and AI International have invested heavily in the U.S. economy; collectively, they employ many thousands of Americans in manufacturing, distribution, and customer service capacities. Foreign car makers like Volkswagen, Honda, Toyota, and Nissan have made tremendous investments in assembly plants in the United States.

Total Exports	$10,641,747	$11,045,080	$13,836,159	$14,270,471	$13,039,040
Total Imports	$9,112,226	$12,597,206	$16,980,573	$21,147,124*	$23,400,940*
Trade Balance	$1,529,519	-$1,552,126	-$3,144,414	-$6,876,653**	$10,361,900**
Exports To Japan	$127,847	$148,386	$179,205	$191,000	$203,400
Imports From Japan	$1,822,344	$2,112,954	$2,939,927	$5,200,000*	$6,038,500*
Trade Balance	-$1,694,497	-$1,964,568	-$2,760,722	-$5,009,000**	-$5,835,100**

These carmakers employ thousands of American workers, and they may buy substantial quantities of parts and accessories from American manufacturers. But if more foreign parts suppliers build manufacturing plants here, what will be the long term effect on our economy?

The APAA is one organization which is not ambivalent about direct foreign investment in assembly plants. Its position on this question is definitely fearful. Linda Hoffman, APAA's vice president of government affairs and international trade, estimates that three American-owned plant jobs are lost for every one created by the Japanese-owned plants due to the plants' function of assembling rather than manufacturing cars.

"Japanese car assemblers here using only 25% U.S. parts are displacing U.S. owned car manufacturing plants that use 90% parts made in America. These screwdriver operations, as we sometimes call them, permit the Japanese to keep their profits and their best jobs at home."

So, the APAA is less than enthusiastic, to say the least, about state and local governments which trip over themselves as they attempt to lure foreign assembly plants to their cornfields. APAA says this may be good for individual towns like Flat Rock, MI, but not necessarily good for the entire country since the United States is *not* a growth market for automobiles. The excess capacity of the carmaking plants means "a lot of companies, both car companies and the parts companies that supply them, are going to be pushed to the wall. A lot of parts companies will be pushed *through* the wall. And with them will go jobs, lots of them."

Going Abroad As OEM Suppliers

You may recall that the 1960s was a time when American parts producers, like TRW, Dana, and Echlin, bought up or into automotive parts plants in Europe, Latin America and Asia.

Consultant John Schnapp, a partner in Temple, Barker and Sloan, Lexington, MA, provides some perspective on the investment and joint venture aspects of globalization. "As a general rule, manufacturers in any country prefer to reach foreign markets by exports from their home bases rather than through overseas plants. They like the economies of scale of producing in one large plant. Also, they are more comfortable with the labor situation and suppliers in their home countries. They invest in overseas plants for two major reasons: currency problems and protectionism. In the immediate post-war period, American manufacturers of automotive components were hindered in the European market by an overwhelmingly strong dollar. In Latin America, they were hindered by protectionism. The solution in Europe was to establish or acquire foreign subsidiaries." Where it was difficult to obtain outright control of foreign plants, as in some Latin American countries, the solution was joint venture partnerships.

Schnapp says the Japanese face similar obstacles in the U.S. market today because of the yen-dollar fluctuation. So although they would prefer to export from Japan, they have no choice but to establish manufacturing centers here.

So, cars, their components and replacement parts, companies and international conglomerates, customers and their preferences, currencies and their fluctuations, nations and their trade policies, all play a part in globalization. Businesses can survive by adapting to changes as they come, and taking advantage of opportunities as they arise. ■